

SEMINAR
ON
PROBLEMS AND POTENTIALITIES
OF
PERFORMANCE BUDGETING

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SOME OBSERVATIONS ON THE INDIAN EXPERIENCE
WITH PERFORMANCE BUDGETING

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Some Observations on the Indian Experience
With Performance Budgeting

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This working paper seeks to provide a framework of reference for the Seminar on "Problems and Potentialities of Performance Budgeting" in India. Time constraints precluded the writer from making any in-depth analysis of the subject and, hence, the paper presents preliminary reactions and questions rather than definitive judgments.

However enthusiastic one may be about the application of performance budgeting to the Central and State Governments of India, he cannot be completely oblivious of the fact that the thrust for the implementation of this approach to budgeting has abated markedly. In fact, one of performance budgeting's most articulate exponents observed that such budgeting "is in a feeble state with mild support for it at the top levels of the Central Government." This let down could be attributed, at least in part, to the tendency for the initial drive and enthusiasm for governmental improvements to evaporate, especially if such changes are not of a highly dramatic character. Moreover, the trials and tribulations attendant upon the implementation of new practices can erode the original interest in, and support of, change especially if there have been exaggerated impressions as to either the benefits that would be derived or the speed with which they would be realizable. Bureaucratic inertia and intransigence are other factors that some might cite in explanation of the performance budgeting dilemma.

In light of the importance of the performance budgeting issue, it would be indefensible to pass off the current situation with a feeling

of resignation or the attitude that things will undoubtedly work themselves out. Certainly sufficient time has lapsed since the adoption of the concept to impel taking stock of the progress that has been made and to determine what changes, if any, are indicated in the underlying concept of the strategy and tactics for its implementation. Neither commitments already made to the concept nor "sunk costs" should be permitted to inhibit a re-evaluation of the concept's viability in the Indian milieu as well as the soundness of the measures taken to translate it into reality.

The Performance Budgeting Concept

One can well inquire as to whether there have been shortcomings in the way in which performance budgeting has been conceptualised for India. Has it been viewed too narrowly as a financial management tool with the result that the focus has been on developing the technician's grasp and acceptance and a correlative neglect of the generalist? In fact some may feel that a parochial approach has led to treating performance budgeting as an entity unto itself rather than as a part of the total management system. There does not appear to be adequate recognition of performance budgeting as only one aspect of an integrated program for managerial improvement. The Administrative Reforms Commission reflected some perception on this score but seemed to view performance budgeting as the ultimate end rather than as one facet of the administrative mosaic. The result of such insularity is to make performance budgeting peripheral to the management process. Professor Walter Freese of Harvard

University, who was consulted several years ago on India's implementation of performance budgeting, warned against making a fetish out of the concept and losing sight of "the underlying things that need to be done to give it the substance required to make it effective in a practical sense." It might be argued that performance budgeting has been portrayed in such a manner as to discourage interest and support on the part of those who are not financial professionals but who may have an important impact upon determining its ultimate fate. In their zeal to achieve performance budgeting, its supporters too often give an appearance of being doctrinaire.

The performance budgeting image has been made unnecessarily forboding by using it as an umbrella for discussion of, and instruction in, such new managerial technologies as network analysis, operations research, and benefit cost analysis. The result is a mystique that compounds the difficulty of convincing others as to the feasibility of performance budgeting. This is not to gainsay the utility of these analytical techniques but it seems to be counterproductive to treat them as integral aspects or essential adjuncts of the new budgetary approach.

One may even go so far as to speculate whether constantly pounding away on performance budgeting per se may not make it more difficult to sell the ideas which we "package" under this label. Professor Frese pointed out that, during his work with the U.S. Government, real progress was made only after the performance budgeting label was de-emphasized and stress placed on the development of systems which related quantitative data to objectives and performance criteria. What we conceive as performance budgeting might better

be understood if viewed in terms of the keystone of a management information system that affords basic data required for the planning and execution of programs.

The tendency to exploit the term "performance budgeting" is reflected in its use in connection with public enterprises. Budgetary planning and the measurement of performance in corporate enterprises antedated the performance budgeting movement. Yet some performance budgeting enthusiasts seem to believe that such budgeting is a recently discovered vehicle for achieving this incorporate management. It seems that, faced with the difficulties of implementing performance budgeting in connection with regular governmental programs, its protagonists have cited what has been accepted practice in corporate management to prove the soundness of their cause. It is true, of course, that public enterprise concerned, as it is, with social and/or economic objectives in addition to the earning of profits needs to view its performance in broader perspective.

Those expounding the performance budgeting concept have perhaps not have been explicit enough in pointing out that the practicality and even desirability of employing physical measures of output could vary greatly as between different types of governmental activities. Frank Krause, who made an early reconnaissance study of performance budgeting in India, was quick to point out that physical measures were not required for all activities or projects and "should be developed and applied to the extent that they are feasible and have realistic value to management." Similarly performance budgeting would appear less threatening if it were better understood that for most governmental

activities there was no need to undertake highly sophisticated accounting in order to determine costs of particular services.

In a country such as India where the national plan is of such transcendent importance it would seem appropriate to emphasize the potentialities of performance budgeting in carrying out the plan. Yet a close relationship does not appear to have been developed; this undoubtedly reflects more basic gaps in the integration of the planning and fiscal processes. As it is pointed out subsequently, the team working on the reform of budget structure and accounts is seeking to establish a closer tie between the budget and the national plan.

Problems in the Implementation of Performance Budgeting

The preparation of performance budgets by an increasing number of Central Government organizations and some State Government departments has apparently not meant that the roots of performance budgeting are taking hold. These budgets have been prepared as supplementary documents, but there is apparently a serious question as to whether the use actually made of them has been commensurate with the time and effort expended in their formulation. It might have been expected that the Parliament would show some interest in these presentations especially since the Estimate Committee's espousal of performance budgeting gave a fillip to the move in that direction. The Committee's expressions at that time probably encouraged the Administrative Reforms Commission in its pronouncement that such budgeting would "help a better understanding and better review of the budget by the legislature." But there is a wide gap between what was envisaged and reality; and at the Central level it

is difficult to discern any real or continuing legislative interest in the performance budget. This leads to the question as to whether further implementation of performance budgeting should not be primarily on the basis of its being a tool for the executive branch and that its legislative utility be regarded as of an incidental character.

But even within the executive branch one is not certain whether operating agencies find the performance budgets a useful exercise or merely a ritualistic compliance with the mandate. In fact it would be helpful to ascertain the actual use which the Ministry of Finance makes of performance budgets in evaluating the agency's estimates. Can it be argued that the implementation of performance budgeting would have been much more fruitful if greater heed had been given to Professor Frese's admonition: "What is required more than anything else is a strong emphasis on participation and involvement in various phases of the implementation process on the part of experienced management personnel concerned with making decisions in the agencies concerned."

Perhaps the implementation has not adequately considered the mass of budgetary materials already imposed upon administrators and the legislators and which would undermine their receptivity to additional materials however meritorious. The determination of data required for performance budgeting needs to reflect a high degree of selectivity so that those using the information are not overwhelmed or confused more than they are enlightened. Moreover, one may not assume that performance data appropriate for one level of the organization is, at least so far as volume is concerned, suitable for other levels.

Since many of the Central Government's programs involve substantial grants to the States, a thoroughgoing system of performance budgeting requires an adequate flow of information from the States to the Center. Hence, it is necessary to realistically analyse the grassroot implications of performance budgeting in such programs and to determine what interim or continuing compromise may have to be made in the implementation of the concept.

Apropos of performance budgeting in the States, the writer submits this suggestion as to a means for stimulating the interest of state governments and better channelling their efforts in this area. Since the Government of Tamil Nadu has actively been pushing moves for improvement of budgetary and other aspects of its financial management, would it not be helpful to write up its experience and disseminate this to other States?

Performance Budgeting Capabilities

The U.S. experience with Planning, Programming and Budgeting System (P.P.B.S.) has vividly demonstrated that efforts to effect governmental changes are prone to be abortive if there is too great a divergence between what is proposed and existing managerial attitudes and degree of sophistication. Frank Krause undoubtedly had this very much in mind when he said: "A successful application depends in large degree on the adequacy and effectiveness of the existing organizational facilities, on the attitudes of top level officials and responsible operating managers, on the capabilities of available staff, and on the manner in which the conversion from existing practices is made." One

individual who has served as a consultant to an Indian State Government observed that those at the lower organizational levels are not equipped to deal with performance budgeting since they function more as "procedure appliers" rather than being concerned with the "why and wherefor" of what they are doing. Regardless of whether one agrees with this comment, it must be conceded that performance budgeting is far more difficult and much less productive if meaningful participation in it is restricted to relatively few members of the organization. There may have been excessive emphasis and reliance upon the financial specialist in the implementation of performance budgeting with the result that the generalist was left on the sidelines. Too often those concerned with a particular technical or professional area are prone to talk among, and convince, themselves with little attempt to communicate with other who are also vitally affected by the matters under consideration. At least to the outsider some performance budgeting difficulties appear to stem from the gap and even antagonisms between the generalist and financial specialist. This makes for very narrow support of performance budgeting and accentuates the impression that it is something superimposed upon management rather than being a highly useful component of the total managerial process.

The Administrative Reforms Commission recognized the essentiality of establishing a firm foundation for performance budgeting and not superimposing it upon inadequate administrative and financial management set-ups. "In the departments and organizations where performance budgeting is to be introduced, the administrative and financial management system covering

the planning, programming, budgeting, reporting and evaluation should be strengthened with a view to adapting these to the requirements of performance budgeting."

The Commission very judiciously recommended provision for financial interchange between the officers of Finance Branches and other branches of administration. It was obviously aware of the dysfunctional effects of the insularity that has too frequently characterized the financial function. Vigorous implementation of the Commission's recommendations could do much to dispel this separatism and to make for a rapport conducive to the full realization of the managerial potentialities of the budgetary and other aspects of financial management.

Attitudes, values, and environmental factors enter into the viability of performance budgeting in the Indian setting. The question has been raised as to whether, in considering the applicability of U.S. performance budgeting experience, sufficient consideration was given to differences between the political systems of the two countries. In this connection any consideration of the U.S. experience should not equate changes in budgetary practices with the actual realization of significant improvements. Underlying many of the difficulties has been unreceptivity to the changes sought to be effected.

Role of Performance Auditing in Performance Budgeting

One item included in the Administrative Reforms Commission's listing of the important objectives of performance budgeting was: "To render performance auditing more purposeful and effective." Much of the writing

on performance budgeting has understandably focused on the advocacy of the concept and the delineation of the format and contents of such budgets. As has been true generally of the budget process, relatively little has been said as to the actual administration of performance budgets once they are adopted. Hence, performance auditing has not been explored in great depth from the standpoint of the important, if not indispensable, role which it could play in the functioning of a performance budget system. This writer submits that such auditing is not only an important phase of performance budgeting but could facilitate its implementation in a manner that is fully responsive to managerial needs and the environment within which the budgeting is conducted.

A group such as that which this paper is addressed need hardly be reminded that the horizons of auditing have steadily expanded so that the auditing spectrum not only encompasses checking on financial accountability and evaluating managerial economy and efficiency but also ascertaining the effectiveness of programs in achieving extended results.

The Administrative Reforms Commission subscribed to this wider concept of auditing and observed that "it is desirable that the trend towards the institution of efficiency-cum-propriety type of audit should be accelerated so as to concentrate on the overall objectives of the programmes and activities undertaken by the administrative agencies." The Comptroller General of the United States is very much in the forefront in this burgeoning of the audit function; and he took decisive steps on this score even before he was given statutory authority by the Legislative Reorganization Act of 1970 to "review and analyse the results of Government programs carried on under existing law, including the making of cost benefit studies."

This reaching out by the auditor has raised issues to which only brief reference can be made in this paper. There has been perhaps a tendency for those shaking off the shackles imposed by conventional auditing to show a lack of restraint, practicality, and intellectual modesty in defining dimensions of their "newly claimed freedom". Moreover, there is a need for greater awareness of what "broad-based auditing" means in terms of requisite multi-disciplinary skills. Greater breadth and depth of auditing has meant that the accounting discipline in itself does not afford adequate credentials for the auditing organization. There is also the danger that diffusion of auditing efforts may seriously attenuate their effectiveness.

But the problems raised by the expansion of performance auditing should not obscure the potentialities of this audit facet. It affords an invaluable vehicle for ascertaining how the results (narrowly or broadly conceived) compare with what was anticipated. In fact, there is a serious question as to how meaningful the installation of a performance budget can be if there are lacking the means for methodically checking on the credibility and implications of the data generated in the process.

The performance audit can well be regarded as complementary to the management information system. The latter should keep management currently apprised as to the status of operations and their relation to predetermined goals or objectives. The performance audit, on the other hand, makes a post-review of the situation in a systematic and analytical manner and may well come up with incisive insights that would not otherwise be revealed. At the same time, the audit can subject the management information system to continuing scrutiny from the standpoint of its utility as a management tool.

The writer has found relatively little reference to the role of performance auditing in checking on the reactions and views of the clientele or customers of the organization. This is an aspect that seems especially significant in the case of government services, where increasing attention has been directed to the adequacy of their delivery. An evaluation of either the managerial or substantive aspects of a program in the public sector would have a serious lacuna if it were oblivious of the feelings of those sought to be served by such activities. The essentiality of this aspect is underlined by the fact that the impersonality which characterizes the operations of so many large, highly proceduralized organizations is one of the most disconcerting shortcomings of large scale organizations with which we have to deal. Management can readily become insulated from the feelings of the public; and the perceptive auditor can be a potent force in counteracting managerial euphoria on this score.

A closely related point is the contribution which performance auditing can make to ascertaining the quality of the service. Performance budgeting revolves around quantitative measures of output and does not purport to deal with the quality of such performance. Hence, comparative data which such a budgeting system yields on performance could be deceptive if there were marked variations in quality of which those using the data were unaware. The performance audit could fill in this void, at least in part, by checking on the extent to which there have been significant changes in standard of services that are rendered.

Performance auditing needs to, in effect, concern itself with the environment within which a program is conducted. Hence, it may have to probe into social, economic, and cultural factors that condition operations.

Performance Auditing as a Means for Facilitating
Installation of Performance Budgeting

It might be assumed that performance auditing should sequentially follow the full installation of a performance budget. However, this is not necessarily the case, and the "strategy and tactics" of effecting change might make it advantageous to push forward on performance auditing concurrently with, or even prior to, efforts to formulate performance budgets and make them vital components of the managerial process. This comports with the concept that a basic purpose of the auditor is that of stimulating the development and maintenance of internal control systems and passing upon their adequacy.

The auditor can be invaluable in adapting performance budgeting to the needs and circumstances of the particular organization and in counteracting the tendency to use "too broad a brush" in the implementation of the performance budgeting concept. The insightful auditor can help to identify management's informational requirements and to determine how they might best be met. Furthermore, the audit process can be an instrumentality for creating a climate that is propitious for the ultimate success of performance budgeting. The existing passivity or, at best, grudging acceptance that now seems to characterize the performance budgeting program is hardly conducive to the nurturing of this approach.

The Internal Audit's Role

The performance audit needs to be viewed from both the standpoint of the Comptroller and Auditor General and the internal audit facilities of the respective agencies. Unquestionably, the CAG occupies a pivotal position in determining the fate of performance budgeting because of not only his audit responsibilities but the impact which his office makes upon accounting. The CAG's own audits as well as his stance with respect to internal audits can have a profound effect upon the general tone of performance auditing. The transcendent influence of the CAG is also reflected in his control of the activities of the chartered accountants who audit public enterprises and his "supplementation" of the findings of such audits.

The very magnitude of the increasing audit load - that becomes even more massive as performance auditing is undertaken - underlines the desirability of having internal audit facilities that lighten the burden of the external auditor by complementing his efforts. But the challenge is not merely one of avoiding a monolithic audit load and an attendant audit staff of foreboding size. The fact that the internal auditor will ordinarily be better versed in the intricacies and technical aspects of the organization's operations is of particular moment when performance auditing is involved. Moreover, the internal auditor can help immeasurably in bringing the audit closer to management and in having appropriate action taken on the basis of the audit findings.

The internal auditors could make significant contributions to the collaborative efforts that the Administrative Reforms Commission recommended

on the part of the Comptroller and Auditor General, the Planning Commission, the Finance Ministry, and the respective administrative ministries. But this posits a far broader type of internal audit program than the Commission apparently had in mind when it appeared to define the basic purpose of internal audit as that of being of "great assistance in relieving statutory audit of the necessity of detailed checks on individual transactions."

It bears mention that the Comptroller General of the United States, who - as was pointed out earlier - has been very much in the forefront in the drive for broader auditing horizons, has been an articulate advocate of strengthening internal audit units that would be concerned with far more than strictly financial matters. More recently, he urged the Congress to "give careful consideration in authorizing new programs, or in-re-authorizing existing programs, to including in the authorizing legislation specific statutory requirements for a systematic evaluation by the department or agency involved of the results of programs in operation."

We need to be cognizant of the fact that those units carrying the internal audit title may not be the only facilities for conducting internal evaluative studies of management or programs. In fact, some of the more incisive analyses of this nature may be made by units entirely apart from the internal auditor, particularly where the latter's role is perceived in strictly accounting terms.

Advocacy of internal auditing should in no way be construed as downgrading the role of the external auditor, who is inevitably the keystone of an audit program. The external auditor affords the ultimate sanction for the internal

audit and should furnish professional guidance and leadership to the totality of the auditing effort. He can bring into evaluations a broader perspective and greater objectivity. Additionally, the external auditor can relate the agency's program and operations to a backdrop that encompasses for more than the particular organizations. This is of considerable significance in these days of proliferating governmental activities that can be overlapping and even duplicative. In short, the external auditor is in a stronger position to identify possibilities for better coordination or dovetailing of programs.

Performance Budgeting for Auditing Activities

There is a nagging question implicit in the expanding ambit of the audit function; the query is especially apposite in developing countries: To what extent is it prudent for the functional or methodological expertise required for more sophisticated auditing to be siphoned off from the actual administration of programs? Proponents of the comprehensive scope of auditing cannot assume that it is such an unmitigated blessing that the use of scarce resources - regardless of their extent - for this purpose is always unassailable.

Performance budgeting techniques can be applied fruitfully to audit activities. In fact, the Comptroller and Auditor General could spur implementation of the performance budgeting concept by demonstrating its use for operations that do not yield physical outputs and where, therefore, the meaningful application of the concept requires an imaginative and even innovative approach.

Performance Budgeting's Progress

At the risk of appearing naively benign, it can be asserted that performance budgeting, however agonisingly slow its progress, has been a salutary catalyst in stimulating rethinking of the budgetary process and in making for awareness of possible improvements. The impact of the performance budgeting thrust can be viewed more broadly from the standpoint of the increased momentum it has given to identifying and correcting shortcomings in the total area of financial management. For example, the Administrative Reforms Commission, after referring to the essentiality of an "efficient and programme-oriented accounting system" for performance budgeting, directed attention to the pressing importance of departments having accounting systems that "furnish timely and relevant data and analysis in terms of the requirements of the executive authorities at various levels." The "spill-over" effects of the move for performance budgeting are undoubtedly spread still more broadly so that they have been supportive of improvements in the content and flow of data required for managerial controls and decision making.

In assessing the progress that has been made towards more effective budgeting, one should not be un^mindful of the work of the Team of officers (representing the Ministry of Finance, the Comptroller and Auditor General, and the Planning Commission) which, pursuant to the recommendation of the Administrative Reforms Commission, has been considering budgeting and accounting reforms. The Team has already submitted a report concerning

the form and content of demands; and it is anticipated that the recommendations will be effected in the near future. As the Team report points out, the changes are designed to bring about the presentation of Central Government demands for grants in a more compact and comprehensible manner.

The Team has also prepared a second report - not available for distribution at the time of this writing - that is directed to the accounts, with respect to which the Commission had emphasized the desirability of "integration of budgetary and accounting classifications which should reflect the various programmes and activities of Government as well as their relative costs in an intelligible manner." The Commission also recommended a direct correlation between the heads of development adopted for plan purposes and the general accounting heads. The terms of reference to the Team encompassed these and other Commission recommendations on accounting. It is understood that this second report may be acted upon in time to be implemented in the 1974-75 budget.

To prejudge the impact of the Team's efforts would be presumptuous and untenable. However, it is not unreasonable to venture the observation that Team's output may result in significant strides toward better financial management.

Performance budgeting in India has been written about and discussed at such length and with such frequency that it could become weighed down by theoretical niceties. What appears to be indicated is a blend of the conceptual and an ad hoc approach that stresses adaptation to specific needs and

circumstances. But an even more basic "shifting of gears" that hopefully is in the offing is that of constantly relating performance budgeting to the total management system. Such a metamorphosis would mean that improvements would be less pinpointed at performance budgeting per se and more to management viewed in its entirety. This might distress some performance budgeting enthusiasts, but it would strengthen rather than derogate from what is actually achieved.

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SOME ISSUES IN TRANSFER OF TECHNIQUES

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SOME ISSUES IN TRANSFER OF TECHNIQUES

In a seminar on performance budgeting it is needless to dwell on definition, scope and purpose. For focussing discussion on the four critical aspects of the subject as outlined in the invitation letter, it is however desirable to refer to the expectations as regards performance budgeting (hereafter referred as P.B.). "The keynote of Performance Budgeting, on the other hand, has been on improvement of internal management on the basis of volume of work to be accomplished (during a financial year) and its cost". (Readings in Performance Budgeting" by M.J.K. Thavaraj and K.B. Iyer Ed. P.3). Another writer says: "The emphasis in performance budgeting is on accomplishments rather than on the means of accomplishments, on the precise definition of work to be done or service to be rendered rather than on details regarding money spent on several items". ("Performance Budgeting in Government" by S.S. Viswanathan P.2).

Viewed from these two angles, the performance budgeting has come none too soon in the search for improvement of analysis and skills for performing tasks rather than on spending finances in a year. Performance budgeting is no-doubt a welcome addition to the tool kit

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of management. However, specialists in P.B. tend to ignore, though they admit, the relevance of P.B. as part of a package consisting of other tools such as systems analysis, network analysis, PTB, CPM etc. In other words, P.B. must be considered, communicated and adopted in conjunction with rather than in isolation from other management techniques in an administrative system. Seldom is the package of techniques put accross together. Each technique is inculcated in isolation. I am raising this point because the transfer techniques and technology in administration is part of a bigger problem, namely, the transfer of technology from a developed to a developing society. If anything, it is a more complex problem than the transfer of machines and machinery. The skills for operating machines could be more easily acquired than the skills of operating new techniques of management.

Consensus could be achieved upon the advantages of reinforcing traditional budget systems or even substituting or modifying the traditional budget with the P.B. We may at this preliminary stage enquire about the costs and the benefits derived from grafting P.B. on the traditional system or substituting or modifying the traditional budget with the P.B. We may at this preliminary stage enquire about the costs and the benefits derived from grafting P.B. on the

traditional system or substituting the latter by the former. Many techniques developed in a different eco-psycho system may be imported and adopted or adapted provided the benefits of grafting outweigh the costs. The problem assumes added significance if the P.B. is to be introduced in all instead of in a few selected departments and undertakings at all levels of Government - Central, State, Local as well as the attached, subordinate or subsidized organisations of Government. If it is to be introduced in all Government departments or undertakings dealing with Government, it appears to be a stupendous task. If it is substituting instead of supplementing the prevailing budget practice, the tasks and costs of training and introduction respectively would be enormous. What would be the benefits of improved management in the form of greater economy and efficiency as well as welfare of people? Would the costs be worth incurring for the benefits that accrue from P.B.? If the benefits are not proportionately high, we may have to entertain doubts about its introduction.

More than a mere cost-benefit approach, there are a few other problems for consideration. These relate to the assimilation of P.B. by the people at all levels - high, middle and low, because ultimately the clerical and supervisory staff would be processing the budget

papers for finalization at the upper middle and higher levels. Induction and commitment of clerical staff into the specifics of P.B. is a difficult and cumbersome task which could not be neglected.

In introducing P.B. in public administration three questions are to be answered: (1) Does it increase the productivity of the civil service staff? (2) Could it be adapted to the varieties of tasks in Government and (3) Does it lead to a further increase in the dominance of the finance, audit and accounts departments?

Productivity: The introduction of a new technique must contribute to productivity in the wider sense of the term. It may be welfare, efficiency or economy or any one or a combination of them. It may be production of goods or services; good will or harmony in interpersonal relationships or interhierarchical relationships or interdepartmental relationships. If, from the adoption of the new technique or modification of the old system in the light of the new technique, there is no tangible increase in administrative output, P.B. could be regarded as an irrelevant technique to the Indian eco-psycho system.

Variety: For a layman it appears that the P.B. could not be uniformly applied to the various functions and tasks in the diverse organisations of the Government. Production, social service, research and routine functions of public

administration demand meaningful adaptations of P.B. to yield fruitful results. One may as well as raise the question whether it is relevant to introduce P.B. in all activities of Government; whether revitalisation of traditional administrative techniques, such as detailed estimates of projects or programmes and close supervision of their implementation after sanction, would not yield the same results as P.B.? If so, is it necessary or desirable to introduce P.B. except in areas where it yields most beneficial results?

Dominance: Already in public administration the dominance of finance, audit and accounts departments has deleterious effects upon the working of other departments of Government. Virtually all activities in Government hinge upon the healthy role of the finance personnel. Prior sanction, instalment releases with scrutiny of operations so far executed and post-completion audit make programme execution secondary to accounting and audit. The roles of these departments are no doubt essential for fulfilling the trusteeship principles and parliamentary accountability of public finances. But the inflexible and uniform manner in which the clerical staff of these departments, hold up papers for "technical" lapses often paralyse the administration and contribute to delays and consequent rise

in terms of project completion. It may add its own quota to undue delays. If this happens, the new technique would become dysfunctional.

Welfare, efficiency and economy which are sought to be achieved by the new techniques are often defeated by the personnel who resist the new techniques of management to suit their understanding and convenience. Understanding often cannot be improved because the personnel may not welcome the change. Or understanding may be distorted in communication and what the managers aspire to achieve might in practice be defeated by the subordinate staff. Public administration suffers from the malady of red tape due to impersonality, anonymity. Maladjustment of techniques takes place because of the indifference and inertia of the clerical staff. Possibly, the efficiency of the technique of performance budgeting will, in practice, be no better than the prevailing traditional techniques because the socio-psychological does not permit it to be better; or because the other tools in the new management package are not pursued with equal zeal.

Political - Bureaucratic Ethos and Performance Budgeting

Improvement in management techniques is not as neutral as it appears to be on the face of it. Fear of change is a genuine fear in the minds of older people.

Either because they feel that their services will be regarded as redundant or because they will be treated as obsolescent, there may be resistance to introducing new techniques in Administration from older civil servants. Politicians also may sometimes resist changes. They may find the prevailing systems of budgeting and financial control not only familiar but also flexible for satisfying their own conveniences or constituencies. Political and bureaucratic wings may together resist the demand for improved techniques in management such as performance budgeting because P.B. may act as a hardship on both separately as well as collectively. Studies in organisational and administrative behaviour point to the tendency on the part of managers and subordinates to have informal group relationships both horizontal and vertical. There may be parallel informal groups among specialists, and professionals besides administrators. Very few employees in an organisation would welcome the introduction of systematic methods that set detailed targets for their work or measure outputs of their work in the Secretariat or in the Directorates. These predispositions could not be brushed aside or wished away. What kinds of methods be adopted for the introduction and implementation of

performance budgeting techniques in the staff and line organisations of Government departments in the face of the propensity to resist the systematic methods of work measurement deserve to be explored.

Both eco-psycho ethos and political-bureaucratic ethos might not necessarily favour the systematic application of performance budgeting. This may be regarded as a cynical observation. Sympathetic cynicism may have a constructive role to play provided enthusiasm is tempered by enlightenment. The strategy for introduction and implementation of performance budgeting in Public Administration deserves to be properly devised by taking into account the factors mentioned above.

The foregoing analysis may appear pessimistic and may prognosticate doomsday for P.B. Far is this from my mind. My intention in raising these problems is to forewarn the preachers and teachers of P.B. from taking a leap in the dark. We are happy that they have invited possible lines of criticisms and resistances so that they could plan a systems strategy to ensure its success. The traditional system of budget suffers from obsolescence of time, purpose and function. It continues without radical change on account as much of

indifference to results as of inertia to innovate in the field of public administration. Ad-hoc changes have created a myopia of improvement without effecting improvements. Any reform in budget must take into account the overall system of administration as well as the discipline in public administration. I am sure that colleagues in the Institute and outside are fully aware of these points and that while recommending the new technology of financial management they appreciate the indigenous eco-psycho system, the political - bureaucratic ethos as well as the capacity of the personnel to transfer this technology and to operate it at different levels and in different areas of activity with imagination and effectiveness. Three important ingredients for any reform are cognition, communication and commitment to conduct the new technique with sympathetic imagination. Whether these are too much to demand, time alone can decide.

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PARLIAMENT AND PERFORMANCE BUDGETING

Lord Bridges in his book 'The Treasury' said: "Whatever else a Government may or may not do, one thing it cannot avoid doing each year if it is to continue to exist; and that is to obtain the authority of Parliament to raise revenue to meet expenditure; which is done by the Budget and the accompanying Finance Bill".

In India the Government is bound by the Art. 112 (1) of the Constitution to place before Parliament its 'Financial Statement' every year. Art. 112 (1) lays down inter alia that

"The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year".

The annual budget is designed to secure Parliament's approval to the projected expenditure and to raise revenue to meet that expenditure. With the increase in the activities of government and the governments taking over the role of a welfare state, the budget is not only a statement of financial

activities but is a significant statement of Government's policy and the major instrument for the expression of Government's programmes for economic development. In view of the vital role which the budget plays in the economy of a welfare state, the legislators and the citizens are more than ever interested to understand from the Budget what the Government is doing, what it plans to do, how it is doing and with what cost.

The budgetary process can make for better understanding of Government's programmes and policies if it is reviewed and reshaped to suit the requirements of the times. It was for this reason that the Parliamentary Committee on Estimates in its report in 1950 observed: 'The system' of accounting and budgeting have had its advantages in the past, but it appears so involved and cumbersome that a revision of the existing system is urgently called for".

The Committee, therefore, recommended that a committee consisting of the Budget officer of the Government of India, a representative of the Comptroller and Auditor General of India and a member

of the Estimates' Committee be constituted to examine the whole matter thoroughly and to report to it on the improvements that could be made in the existing system. In pursuance of that recommendation a Committee was appointed to suggest changes in the form of annual Budget and a result of suggestion, made by that Committee several changes were made in the form and contents of the Budget. The Budget with those changes emerged out to be more intelligible and informative.

Again in 1957, the Estimates Committee when it went into the budgetary system of the Government felt that the Budget still did not serve the purpose which a modern Government Budget was intended to. To emphasise importance of 'Performance Budget' the Committee stated:

"The country is at present engaged on the Second Five Year Plan and the prospective planning for the third Plan will shortly be under way. The essence of planning is to define the goal to be achieved, assess the resources available and to select from among the number of programmes particular schemes or programmes which can best help to attain those goals

speedily. As pointed out earlier, the budgetary process can make for better informed judgements concerning the allocation of Government resources and encourage a more effective use of resources devoted to particular purposes. It can also provide the occasion for periodical reviews and reassessment of community needs and resources. It is often considered that the performance-cum-programme type of budgeting is an important tool both for the Executive and the legislature in making such reviews and evaluation in reaching correct decisions.

The performance budget is a budget based on functions, activities and projects which focus attention on the accomplishments, the general character and the relative importance of the work to be done and the services to be rendered rather than upon the means of accomplishment such as personnel, services, supplies, equipment, etc. Under this system the functions of various organisational units would be split into programmes or activities, sub-programmes and component schemes, etc. and estimates would be presented for each. Before this is done, the schemes

and programmes would have to be set in terms of measurable end-products which may differ from scheme to scheme, costs would have to be carefully determined for each and targets in physical and monetary terms would have to be fixed. This would facilitate a review of the performance and of the proposed programme and consequently for decision making at a high level and is particularly suited to the requirements of over-all budgetary planning. It is recognised, however, that the budget must also serve management purposes at and below the departmental level. The performance budget does not, therefore, rule out the existing accounting budget which is necessary for control purposes. In fact it would be considered more or less an additional 'activity' statement representing the information scattered over a number of budget documents or supplementing the annual reports, and split in terms of programmes, sub-programmes, projects, component schemes, etc. In this sense it may be said that the performance budgeting does not involve a radical departure from the existing budgetary methods but only a reorganisation of the existing procedure to meet the requirements of the changed circumstances.

In view of the foregoing it is obvious that the performance-cum-programme system of budgeting would be ideal for a proper appreciation of the schemes and outlays included in the budget, especially in the case of large scale developmental activities".

And recommended:

"The performance budgeting should be the goal which be reached gradually and by progressive stages without any serious budgetary dislocation"(x)

The Government while noting the suggestion of the Committee indicated that the possibility of introduction of performance budgeting was already under examination and that the feasibility of the technique would depend upon the outcome of the examination. The Estimates Committee reiterating its suggestion in 1959 expressed the hope that the 1960-61 budget would be a performance budget, partly if not wholly.

The Administrative Reforms Commission also stating that one of the main purposes of performance budgeting is 'to facilitate better appreciation and review by the Legislature' recommended that

(x). See 20th Report of Estimates Committee (2nd Lok Sabha) paras 19-21.

"the departments and organisations which are in direct charge of development programme should introduce performance budgeting".

It is a common knowledge that the Parliament and its Committees mostly depend upon the information furnished to them by the Government agencies and departments. Annual Reports and Accounts which, however, full necessarily omit a great range of information required for satisfactory judgement. If to-day there is a great deal of criticism of Parliamentary institutions and there is growing disappointment with Parliament, it is on account of the fact that the flow of information to Parliament is inadequate and behind hand. If the Parliamentary democracy, rule by enlightened discussion, is to survive then the Members of Parliament must be provided adequate and intelligible information about government's fiscal activities through the media of Annual Budget.

Apathy of the Government to the provision of adequate data to the Parliament is perhaps the reason for non-adoption of performance budget which the Parliamentary Committee suggested in 1957.

If the Parliament is itself keen to be fully informed about the Government operations, the efficiency with which they are executed and what they cost to the public exchequer, it must insist on the introduction of Performance Budgeting. It must not leave to the discretion of Government its right of being informed adequately and properly. Unless the Parliament pursues the suggestions of its own bodies - select committees it shall remain as ill-informed as to-day. It is satisfying to note that the Estimates Committee in its latest report (1972-73) has again recommended that concrete action should be taken to see that Performance Budget is prepared by all Ministries/ Departments who are charged with developmental and other Plan activities. (*)

Nearly twelve departments of the Government of India have already started preparing performance budget and submitting that to the Parliament. The Parliament and its Committees

(*) See 24th Report of Estimates Committee (1972-73) p.21.

should evaluate those budgets and judge how far they serve their purpose. Only when the Parliament makes use of the performance budget documents their importance would be realized and the technique of performance budgeting would be perfected and applied to the other départements.

SEMINAR
ON
PROBLEMS AND POTENTIALITIES
OF
PERFORMANCE BUDGETING

DECEMBER 29-30, 1972

PERFORMANCE BUDGETING & POLICY ANALYSIS

by

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Performance Budgeting & Policy Analysis

by

J.G. Krishnayya

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Summary: Performance Budgeting is usually seen primarily as an element of a Control System. This may be one function, but another very real value of incorporating output measures in budgets is the evaluation of alternatives which this permits at the strategic level where the relative emphasis being given to different programmes (in different ministries) should come under examination in terms of their end results. This essential policy review and analysis can be done only in an unsatisfactory ad hominem manner without performance budgets.

1. 'Budgets' are information-models of real programs & activities. Sometimes they provide a picture only of the movement of cash, sometimes of financial obligations and sometimes, in enlightened republics, of actual happenings. In all cases they represent one aspect of an information system.

2. The aims of "Information" Systems depend a lot upon the view point of the speaker. A man right at the firing line needs to know in detail how fast his resources are being depleted and where current difficulties are being experienced and who needs advice or support. Someone responsible for support of the front line needs to prepare supplies that he may be called upon to make, and needs to know, within his

sector, what readjustment of direction and number of his forces will be needed to achieve the objectives provided him for the current period. At the top of this chain of command, orders have to be given for the next period's provisions and the awards and rewards and punishments handed out to officers down the line to ensure that morale is supported and errors corrected in future. In addition, an evaluation of current tactics (Procedures) and equipment must be made, improvements defined and the training for their use specified and scheduled.

3. In the little description above, which applies to any purposeful hierarchic organisation, the reader can clearly see the (partial) role of performance budgets at each point in the hierarchy. Principally, performance budgets provide an effective control and motivational tool to managers at all levels, over the short run future.

4. Improvement in procedures or changes in equipment require analyses and direction from outside the system controlled by the Performance Budget. And, unless Performance Budgets exist in other units, it will not be possible for such analysis to be given effective direction. On the other hand, if Performance-oriented information systems exist in other bureaux/divisions, it becomes possible for the next level system to search for comparable input-output coefficients, hopefully not just in money terms but including also information on the quality of manpower used and on the local environment. With

this information in hand, analysts can study the procedures & tools or equipment for possible improvement.

5. So far the discussion has been restricted to the management of the process of achieving given ends by given means, which is the function of the "bureaucracy". It is my contention that the information generated by the process of preparing performance Budgets can be used also by Policy analysts to study in a constructive manner the overall picture of public expenditure related to the same end in different sectors and to provide intelligent and intelligible criteria for improving the program mix. This is not to say that such policy analyses are capable of specifying the relative importance of different programmes, especially when the time profiles of program costs and benefits differ widely. They can certainly help with the design of mixes of programs which can be considered mature.

6. An easy-to-accept illustration of this type of policy analysis is in the design of a mix of incremental investment in Canal, Bund and Well irrigation in a specific region. Such analyses and the policy decisions they may lead to can be of substantial benefit if they direct more funds to the investment which is incrementally more productive for that region. Such analyses are possible even today, of course, because budgeting in most FWD departments has been 'project' oriented and therefore akin to performance budgeting.

Conclusion

If performance budgets become anorm for all the government programs related to some single (industrial sector or) geographic region, it will be possible to make increasingly better policy decisions at the level of allocating resources to different programmes bearing on that (sector or) region. Recent debate on improvement of Education in rural areas, on rural housing, water supply, transport, etc. are indicative of the fact that mere efficient management of programme activities is not enough in a condition of rationed resources; there must also be a provision for weighing of the allocations to each programme.

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S E M I N A R
ON
PROBLEMS AND POTENTIALITIES
OF
PERFORMANCE BUDGETING
December 29-30, 1972

PERFORMANCE AUDIT AND PERFORMANCE BUDGETING
OF RURAL ELECTRIFICATION PROJECTS.

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Subject :- PERFORMANCE AUDIT AND PERFORMANCE
BUDGETING OF RURAL ELECTRIFICATION
PROJECTS.

Rural Electrification projects lend themselves easily to application of the techniques of performance budgeting and performance audit since the performance standards and measurements in respect of the projects can without any difficulty be put in quantitative terms both in regard to physical as well as financial achievements. The Rural Electrification Corporation which gives long term loans to the State Electricity Boards for Rural Electrification projects has evolved a method of concurrent performance appraisal to ensure that we have "value for the money" spent.

2. The Rural Electrification Corporation which is a financial institution functioning as Public Sector Undertaking has the following main objectives :-

- (1) To finance rural electrification schemes in the country.
- (2) To subscribe to special rural electrification bonds that may be issued by the State Electricity Boards on conditions to be stipulated from time to time.
- (3) To promote and finance rural electricity co-operatives in the country.
- (4) To administer the moneys received from time to time from the Government of India and other sources as grants or otherwise for purpose of financing rural electrification schemes in the country in general.

Contd/P..2.

The REC has been established in 1969 and out of the total outlay on rural electrification in the country during the 4th Five Year Plan about one fourth has been channelised through the REC, the execution of the projects being undertaken by the State Electricity Boards. Thus the Corporation has so far sanctioned about 350 Rural Electrification Schemes valued at Rs. 200 crores. Before sanctioning loans to the State Electricity Boards in respect of rural electrification projects, the Corporation insists on the formulation of the schemes on the basis of "Project Approach" with particular emphasis on area development and growth in agricultural production. The thrust of the programme is thus the energisation of wells with a view to maximising agricultural production. The Corporation also ensures that the schemes are financially and economically viable over a period of time.

3. The project reports in respect of schemes financed by the Corporation are required to contain a time-bound construction programme which gives in detail the financial outlay per year for the construction period - which is generally 3-5 years - and also the units of construction envisaged per year under the different headings viz. 11 Kilo-volt lines, Low Tension Lines, transformers, service connections for agriculturists, rural industries, domestic and commercial connections, etc. This construction programme, giving simultaneously in physical and financial terms the standards to be

achieved by the Electricity Boards in respect of the projects for a period of 3-5 years, can be regarded as the performance target for the Electricity Board so far as each individual project is concerned.

4. The loan given by the Corporation to the State Electricity Boards for each project is disbursed in 3-5 instalments in accordance with the requirements of each year with reference to the construction programme including in the project report as stated above. While the first instalment of the loan is given on the basis of the sanction of the project and completion of the necessary legal formalities, the second and subsequent instalments are released by the Corporation to the State Electricity Boards only on satisfactory performance with reference to the yearly targets given in the construction programme. For this purpose, the Corporation has a system of periodical monitoring of the projects under execution by teams consisting of technical (engineering) and accounts officials. These joint teams periodically conduct a performance audit of the projects under construction and by visit to the scheme areas and scrutiny of the accounts records evaluate the performance in physical as well as financial terms and judge whether adequate "value for the money" spent has been forthcoming. It is only when the results of the performance audit inspection are satisfactory that the second (and subsequent) instalment is released by the Corporation to the State Electricity Boards.

Contd/P...4.

5. Thus, the REC is attempting to relate performance audit to the actual release of loans to the Electricity Boards and the principles to be generally followed in conducting performance audit - viz. that, firstly, the performance audit should be done on a concurrent basis and not be just a "post-mortem" analysis, secondly that it should be done jointly by the Technical and Accounts Officials (and not by Auditors only), thirdly that it should serve as a management tools for project implementation (and not be an academic exercise) - are all being observed in practice to a large extent.

6. A detailed and concurrent performance audit conducted in the above fashion naturally throws up a number of deficiencies in the project implementation by the executing agencies, namely, the State Electricity Boards in this case. Thus, in certain cases the management-information-system and reporting is found lacking while in certain other cases, the physical performance is found lagging far behind the financial performance, i.e. the unit costs have gone up very high compared to the estimates. This leads to the question of introducing of adequate cost-control techniques by the project authorities. In a number of projects, it is seen that while the performance in respect of 11 Kilo-volt lines, transformers and low tension lines is satisfactory, the service connections, especially the number of wells to be energised, which, in fact, constitute the principal end-results of the projects financed by the REC, are

much behind the targetted quantities. This in turn leads to an enquiry about the area development programme in respect of the scheme and the co-ordination (or the lack of it) among the various development agencies working in the area like the Agricultural Department, institutions providing fertilisers and improved seeds, credit institutions, etc. The deficiencies highlighted during the course of performance audit are taken up by the REC with the State Electricity Boards and other concerned departments for necessary action.

SEMINAR
ON
PROBLEMS AND POTENTIALITIES
OF
PERFORMANCE BUDGETING

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SHORTCOMING IN BUDGET MANAGEMENT

by

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SALIENT POINTS

1. Budget and Budgetary Control are vital tools for Management Planning and Control.
2. This vital tools has so far been conceived only in financial terms. The financial accountability is usually the overriding consideration and this permeates the entire budgetary process.
3. Emphasis is based mainly on the observance of appropriation limits. This system of budgeting does not provide information on what a company is actually doing and what it gets for the money spent.
4. In many cases, the physical performance cannot be linked directly with financial data, as they appear in the budget or in the accounts.
5. The use of performance budget has been developed essentially in response to correcting these situations stated above. It is intended to highlight management considerations in budgeting and in doing so, bring out the most significant, economic, financial and physical aspects of the budgetary activity.
6. PFB is the one which presents the purposes and objectives for which funds are requested, the parts of the programme proposed for achieving these objectives and quantitative data measuring the accomplishments and work performed under each programme. For effective working of the PFB, the system of accounts and financial classification should be brought into line with PFB classification. The classification structure for PFB would involve the following:
 - 6.1 Functions - Broad groupings of operations that are directed toward accomplishing a major purpose of organisation.
 - 6.2 Programmes - Broad categories within a function that identify the end-products.
 - 6.3 Activities - Segments of a programme that identify homogeneous types of work carried out by subsidiary departments to produce end-products.

SHORTCOMING IN BUDGET MANAGEMENT

By

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A significant characteristic of planning during the last decade as also the next decade has been the importance accorded to the public sector. The growth of the public sector has become a dominating factor in the development process. During the last decade, public outlays have increased significantly not only in India, but in many developing countries, bringing in their wake many important structural changes. It would be therefore only logical to expect that management considerations should be of eminent importance in budgeting, and that the budget should be so devised as to highlight the operational characteristics, both physical and financial of any given programme.

The estimated outlays from the "First Five Year" plan to the "Fifth Five Year Plan" are tabulated below:

<u>"Five Year Plans"</u>	<u>"Outlays"</u>
First	Rs. 1800 crores
Second	Rs. 3100 crores
Third	Rs. 4100 crores
Fourth	Rs. 8980 crores
Fifth	Rs. 51,165 crores

The "Fifth Five Year Plan" now being finally approved by the Union Cabinet envisages 29,745 crores in Public Sector and Rs.15,570 crores in the Private Sector, and the development outlays in public sector Rs.5,850 crores.

In many industries in the public and private sector, budgeting is conceived largely in financial terms. The financial accountability is usually the over-riding consideration and this permeates the entire budgetary process. Emphasis is placed mainly on the observance of appropriation limits. This system of budgeting does not provide information on what a company is actually doing and what it gets for the money spent. It may be possible

to compile such information from departmental reports and other documents but in many cases this information cannot be linked directly with financial data as they appear in the budget or in the accounts because it does not constitute a basis for budget management.

An "over simplified" budget comparison in respect of a business may look like this:

Budget	Actual	Gain +/-Loss- Deviation		
Rs.	Rs.		Rs.	
25,000	19,000	-	6,000	Sales
20,000	16,500	+	3,500	Cost of Sales
5,000	2,500	-	2,500	Gross Profit
800	700	+	100	Selling Cost
600	550	-	50	Distribution Costs
400	450	-	50	Admin. Costs
1,800	1,700	+	100	Total
3,200	800	-	2,400	Net Profit

THE NEED FOR DEFINING ACTIVITY LEVEL

But we must then become even more complex than this, because our "Budget" will probably be for a different level of activity than that actually achieved and so we must introduce yet a forth column and also an activity level in some suitable unit:

Budget	Budget for Actual level of Activity	Actual	Gain+/Loss - Deviation		
Rs.	Rs.	Rs.		Rs.	
250	200	200	-		Activity level (Tons)
25,000	20,000	19,000	=	1,000	Sales
20,000	16,000	16,500	-	500	Cost of Sales
5,000	4,000	2,500		1,500	Gross Profit
800	V 640	700	=	60	Selling Expenses
600	V 480	550	-	70	Distribution Expenses
400	F 400	450	-	50	Admin. expenses
1,800	1,520	1,700	-	180	Total expenses
3,200	2,480	800		1,680	Net Profit Before Tax

Activity Level

(Note: V = Treated as Variable i.e. Budget for
Actual Level of Activity = $\frac{200}{250}$ of

F = Treated as Fixed i.e. same amount Regardless
of level of activity.)

We can now see that the difference between Column 1 (Rs.3,200) and Column 2 (Rs.2,480) is the profit we have lost because our level of activity was 50 tons less than forecast (Rs.720).

And now, the comparisons between Column 3 and Column 4 are valid reflections of our lower selling prices, and lower Cost Efficiency as compared with adjusted Budget figures appropriate to the 200 Tons we actually sold.

The use of programme and performance budgeting has been developed essentially in response to the need for correcting this situation stated above. It is intended to highlight management considerations in budgeting and in doing so bring out the most significant, economic, financial and physical aspects of the budgetary activity. In budget management, there are three sets of interrelated considerations.

In the first place, under this approach, meaningful programmes and activities are established for each function to show clearly the work objectives of various functions. Secondly, the system of accounts and financial management are brought into line with this classification. Thirdly, under each programmes and for its operational subdivisions, action is taken to establish programme and work measures that are useful for evaluation of

performance. This shows that "a performance budget is one which presents the purposes and objectives for which funds are requested, the parts of the programme proposed for achieving these objectives and quantitative data measuring the accomplishments and work performed under each programme".

The purpose of doing something and the cost of doing it are the two considerations which are indivisible and indispensable to the most effective system of management. The calculation of cost in such a system, however, must be conceived in terms of actual receipt and use of resources required for the completion of a given project. In many cases, accounts are kept either on a cash or obligation basis. Such accounts, although they are very useful for the purposes of accountability and appropriation control, indicate only the payments made or obligations incurred and do not measure the true cost of providing various products services. However, if they are properly related to programmes such accounts can initially be used in this budgetary approach pending refinement of the accounting system.

Once the programmes and accounting data are interrelated, the development of physical measurement data and of the performance indicators for each programme and its sub-divisions provide a total perspective for effective budget management, specially in public sectors and government departments. In the process of budget execution, control of expenditure acquires a purpose and the accountability for operational activities becomes such

more meaningful. An integrated view of these three factors helps to shift the emphasis from macro considerations to micro-considerations in the appraisal and control of expenditures. The development of unit cost data and of productivity measures should enable, over a period of time, the establishment of norms and standards for comparison purposes. The use of such norms or standards in budget management in turn can bring about economy and efficiency in public expenditures. When finance is one of the linking factors in the growth of developing countries like ours, the need to economise this scarce resource and to get most out of public expenditures becomes overwhelmingly self-evident and compelling.

Between a Plan and a Programme and Performance budget, there are certain structural similarities of form and common elements in the accounting for resource use. The basic features of a plan are its use, within a sector, of programmes or projects as operational units, the emphasis on their physical inputs and results or benefits and on their cost in relation to benefits. These are also the attributes of a programme and performance budget, in which the objectives are first formulated at the functional level and then broken down, for operational purposes into specific programmes, projects or activities. These similarities in form and operational orientation makes programme and performance budgeting particularly suited for

plan implementation and evaluation of plan progress in the country. The data obtained from budget execution, both of a physical and financial nature, can be helpful in the subsequent revisions of a plan or formulation of new plans.

For a programme and performance budget the establishment appropriate classifications assumes great importance. The classification structure for a programme and performance budget involves the identification of the following:

- 1) Functions - broad groupings of operations that are directed toward accomplishing a major purpose of organisation.
- 2) Programmes- broad categories within a function that identify the end products.
- 3) Activities - segments of a programme that identify homogeneous types of work carried out by subsidiary departments to produce end products.

The classification by "Function", for instance, facilitates top level decision making on the distribution of available resources in accordance with policy objectives and long range plans. The classification by "Programmes" and "activity" relate financial requirements to end products and work performed by specific departments, which facilitates formulation of the budget in relation to long and short range goals; the review of work plans in relation to costs and control over the performance of departments in executing the authorised budget.

Source: Major concepts of "FPB" are taken from the book published by "United Nations" on "Programme and Performance Budgeting". Those interested in knowing the depth of classification for FPB in respect of Governmental expenditures into functions programme and activities may kindly refer to the book which has illustrations of Governmental transactions of developing countries.

S E M I N A R
O N
PROBLEMS AND POTENTIALITIES
O F
PERFORMANCE BUDGETING
(December 29-30, 1972)

PERFORMANCE BUDGETING SYSTEM -
ARE WE SERIOUS ABOUT ITS INTRODUCTION ?

by

B.N. Gupta

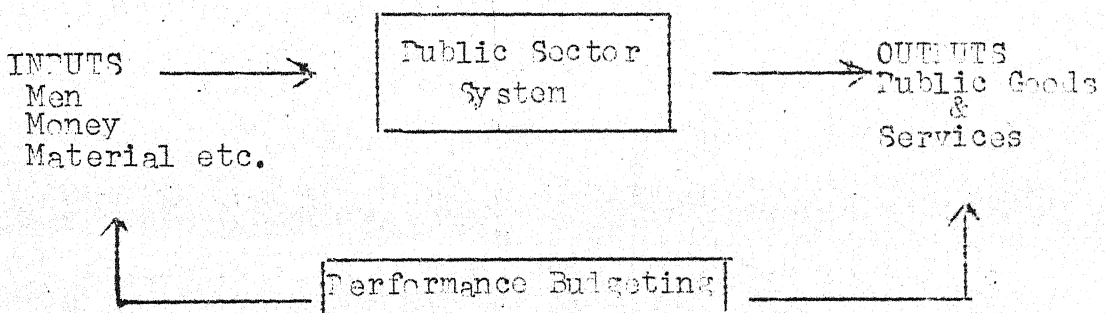
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PERFORMANCE BUDGETING SYSTEM-

ARE WE SERIOUS ABOUT ITS INTRODUCTION ?

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The activities of a government may be viewed as a system. A system may be thought as mechanics transforming inputs into outputs. Inputs are the factors of production, men, money and material, that a government uses to produce public goods and services, which are the outputs of the system. The performance budget approach places major emphasis upon the relationship of inputs and outputs of a governmental system and tries to match inputs with the corresponding outputs of various activities of an agency or organisation and helps in evaluating whether outputs are worth the inputs.



Given the requirement that a certain amount of output be obtained, performance budgeting concentrates on providing that output in the least cost way. Being management oriented, the main focus of performance budgeting is on agency outputs - what is being done or produced and at what cost and how the performance compared with the budgeted goals.

This approach becomes essential due to ever-increasing levels of public expenditure on the one hand and insufficient resources to satisfy all needs on the other. This becomes all the more important in a developing country like India, where limited public resources have to be put to an optimal use. Public expenditure, if not producing matching output to inputs generally gives rise to inflationary pressure with consequent harmful effects on the economy.

The Administrative Reforms Commission's recommendation that 'the departments and organisations at the Centre as well as the States, which are in direct charge of development programmes should introduce performance budgeting' must have been based on these considerations. Having the recommendation been accepted by the Government

a number of departments and organisations of the Central and a few of the State Governments are producing performance budgets for the last 3-4 years. Having adopted performance budgeting a destination of Indian budgetary system, it is worthwhile to take account of progress made or failures met in this direction. It is the right time to judge whether we are seriously introducing this new technique in our budgeting system and whether we are following a right track to reach the destination or there is need for mid-course correction? This sort of self-appraisal is of great value at this juncture. For a right self-appraisal, we have to ask ourselves a few questions:

Have we created a right environment for performance Budgeting?

Performance budgeting is a reformatory measure, and like any other reform, its success will depend upon creation and maintenance of a suitable environment. The technique envisages a radical change in the outlook and thinking in the financial machinery of government for enabling the performance budgeting deliver the goods expected of it. A sort of 'Budgetary Man' in public financial management, a counterpart of classical 'Economic Man' and Simon's Administrative Man' guided by the

the rules of efficiency, choosing the alternative that optimises allocation of public funds has to be created.

Having accented the system of performance budgeting, whether Finance is trying to abandon its object-wise thinking and practices? One can definately say 'No' to this question. No doubt, a change is difficult to be made from long practised traditions. It happens that when people who are clearly imbued with the philosophy of one system get installed another system they operate as if old system is still in operation. But a start should be made in the direction of divorce from line-item expenditure budget philosophy and orientation towards performance budgeting thinking.

It may be pointed out that the traditional estimates representing cash flow type of accounting are still necessary to ensure financial regularity. Traditional estimates may be fine, but there is need to know whether money was spent the most efficient way or the cost of a particular activity could have been lower?

Even after commitment for introducing performance budgeting, our system of financial management and control is very much like that which prevailed twenty or even forty years ago. For the most part, the pattern is unchanged despite all tall talks of reform. The present financial system is a complex of administrative practices that

has grown like a banyan tree over a century or so. The system is more than a hundred years old and unfit to shoulder and carry out the responsibilities of providing public goods and services efficiently and at the least cost to a economically and socially developing community. Responsibilities of the seventies of the 20th century cannot be carried out effectively by a system designed more than a century ago. It might have worked well in the 19th century but it is now obsolete and needs replacement by a more suitable system. Our budgetary system has remained essentially a highly centralised cash system with an amazing degree of Finance's central control. This system puts into the hands of Finance (which has relatively limited access to the information regarding basic determinants to the situation) enormous power over expenditure decisions and governmental spending programmes.

The system appears to be based on the belief that financial administration can be separated from actual management, and therefore, must be centralised in the hands of Finance. The Finance cannot be blamed for the situation. They did not make it this way, they found it like that. The reason they found it this way is because they inherited a highly centralised system of financial control. However, they could not change it to the needs of present day requirements. The system has become quite inadequate

for the gigantic range of activities and responsibilities which the Government have had to undertake now. The system is in direct conflict with recognised principles of modern management-it works actively against delegation of authority and therefore, against creative and innovative ideas going into the management of public activities and programmes. The different governmental agencies need more flexible and adaptable structures free from rigid control system to suit the needs of modern government. There is need to change the pressure cooker environment and create an environment of initiative and creativeness. Have the attitude and working procedure and practices of the agencies Changed?

The adoption of performance budgeting needs basic change in the ways, attitude and operation of the governmental agencies. Budgeting attracts their interest when it is used to control spending or to determine policy objectives but when it is used to increase efficiency by measuring and evaluating performance against set standards, it becomes unwelcome. The traditional system of budgeting has developed a sort of 'Budgetocracy' -- a habit of looking at the lines and not at the results, the habit of cutting a budget and of justifying a budget, and a habit of control and management without use of analytical techniques. These have become the rules and strategies of budgeting. The system has 'accountable management' without a proper

management accounting system and approach. Performance budgeting needs a cost-conscious management. If the attitude of the agencies remains of "Who the hell cares how much a pound of laundry costs?", the performance budgeting won't help in increasing the efficient and economical operation of government.

Have we oriented our accounting system and organisational structure to suit the performance budgeting system ?

An essential pre-requisite to the adoption of performance budgeting is to redesign the governmental organisational structure on the basis of functions and activities. Within such an organisational structure accountable units should be setup, wherever measures of achievement can be established in quantitative-cum-financial terms and individuals held responsible for proper output at proper costs. Accounting structure should also be based on functions, activities and sub-activities. Accounting records should be able to generate prompt cost-information to be used as management tool. They should be able to provide new information required for the system. A supplemental accounting system has to be developed for accounting of performance in physical terms. This will help in analysis of cost-output or operational/technical efficiency.

Are we trying to develop rigorous work-cost measurements?

The basic format of performance budget relates inputs to outputs, for which work and cost measurements have to be developed. Use of work measurement technique to arrive at relative yardsticks of output for as many activities as possible has to be made. It also entails establishment of convenient units which relate outputs to inputs. Work standards have to be developed to assist the departments in the preparation of budgets.

There has nothing substantial been done in this direction. Organisations have not taken steps to establish standards. Whenever an effort in this direction is to be made, care should be taken that standards of performance are not based on historical records but on scientific study of measurements of level of performance. Cost data should also be developed based on application of cost accounting techniques and they should not be ex-post facto derivatives of decisions made on object of expense grounds. For instance, after a hospital is added, the cost of personnel, supplies and other objects etc. added to find total cost and the total divided by the projected number of patients for getting per patient cost.

Have steps been taken to design suitable information system?

Performance budgeting system envisages development of an appropriate reporting system for comparing total output, total input and rate of performance against the standards incorporated in the budgets. These informations should be in addition to the normal budget-control statements. The informational structure so far is only input-data oriented. It has to be made output-data oriented also.

Performance budgeting needs a new pattern of control. Are we ready for it?

Performance budgeting needs a new pattern of control, the chief features of such a control are:

(a) Loosening control over inputs: A sufficient range of departmental activities need to be freed from central scrutiny. The central controlling authority should intervene only in special circumstances --when there is over expenditure of funds vis-a-vis accomplishments, a fiscal emergency, evidence of misuse of spending authority -- but day to day spending decisions would be allowed to be made by the departments without central clearance. In place of input control, the central authority would control outputs--the work and activities of departments.

(b) Reliance on internal controls: Performance budgeting stresses cost consciousness and internal (self) control, as a substitute for central control. Performance budgeting is based on the philosophy that administrators want to be effective and efficient but they are thwarted by the control system. What departmental authorities need, opportunities and incentives to perform their responsibilities capably and at minimal cost. Released from central control, spending officials would be encouraged to improve the performance. According to this philosophy, identify the task, identify the officer incharge, give him an objective and tell him to get on with it.

(c) Reduction in budgetary details: Input details and control have to be left for the agency itself, the central authority need not enforce adherence to detailed statement of expenses.

(d) Reliance on non-budgetary control: Budgeting is not the only instrument of administrative control. Other measures of control and tools have to be developed and used.

(e) Shift from pre-control to post-control: The decentralisation of control does not free departments entirely from central surveillance. Agencies would have discretion in spending funds in the performance of authorised activities, but they would be required to report their expenses and accomplishments periodically usually every month or quarter. The Finance would then check the work and expenditure of the department, evaluating actual performance against budgeted estimates. While pre-control is designed to deter illegal or imprudent expenditures, post-control acts as a check on inefficiency in expenditures. Coupled with post-control it would concentrate on variances from original plans as a feedback device. The examination of variances replaces the blanket scrutiny of every spending action with selective inspection of exceptions and deviations.

To almost all these questions the answer would be 'No'.

The acid test of every technique depends upon the programmes and decisions it stimulates - not the documents that are turned out. For application of performance budgeting in the Indian budgetary system, we have to follow the spirit of the technique in toto - piecemeal efforts won't be of much help. If the performance

budgeting has not been able to make a mark in the budget system of the country, blame should not go to the civil servants. There is much wrong with the system, which so far has been a closed system. The system needs reorientation to the requirements of performance budgeting. For this help should be taken from the outside managerial talent available in the country. It may be mentioned in this connection that recently U.K. redesigned its management structure with the help of Mr. R.A. Meyjes of Shell International. M/s. Mc Kinsey & Co. Inc. an international firm of management consultants studied Office of Management and Budget in the USA and made useful suggestions of strengthening budgeting and management in the Federal Government there. The governmental system in India should now be exposed to such a study and help be taken to redesign for the purpose.

There must also be willingness of all levels of management to participate constructively in the process. Although performance budgeting may be imposed from the top most of its potential advantages can be realised only with thorough acceptance all along the line. It needs a forceful and sustained leadership from top, which is certainly lacking in our country.

The sole accomplishment of India in introducing performance budgeting has been conversion of traditional budgets of some selected organisations at the Centre and a few States into performance budgets, that too as a post-budget exercise. Some steps have also been taken to re-orient the accounting classification and structure to suit the needs of performance budgeting classification, that too without any coordination with the departments preparing performance budgets. The selection of the departments for preparing performance budgets is also hap-hazard and not based on some phased programme or in a coordinated way. No standardisation of activity classification has been attempted, as a result of that performance budgets of similar departments of State Governments have quite different activity classification.

If we are serious about adoption of performance budgeting, a phased programme has to be chalked out for its implementation. It may be suggested that the Finance should phased up a 'horizontal application' programme, i.e. one Ministry at the Centre and corresponding departments in the States should be selected for introducing performance budgeting. For example, if it is decided to introduce performance budgeting in the agriculture function, then Union Ministry

of Agriculture and Agriculture Departments of the States should be taken up only. The training in the performance budgeting technique should be directed to the officials of these organisations only. That will make the training more meaningful. Simultaneously the accounting structure and organisational structure of this function should be redesigned to suit the needs of performance budgeting. Based on such structures a team of budget officials of the Central and State Governments concerned with the function of agriculture should design a comprehensive and standard activity classification/ⁱⁿ which all the activities under the function can be accommodated. Information system, reporting formats, supplemental accounting system etc. should also be designed with the joint efforts to suit the requirement of performance budgeting in the function of agriculture. Then the system should be allowed to function for a couple of years. During this period appropriations etc. should also be re-structured on activity basis. Parliament should also use these documents for debates, voting etc. A system of performance auditing should also be evolved. Whatever experiences are gathered from such a programme, should be utilised for strengthening the system in that function and taken as guide for future phasing and designing the programme.

During such period the organisations should try to develop work-cost measurements etc. so that performance budgets can be prepared directly then. To share the experiences and for finding solutions to the problems faced or resolving issues, there should be periodical meetings of the concerned officers of the Centre as well as of the States.

In the initial stages a 'crosswalk classification' in the budget can be adopted. This type of classification will help in developing work-cost measurements and evaluating performances. An example of such a budget-proforma is given below:

Performance Budget of Department of Food

Object-wise Activity- wise classification	Est. Charges	Travel	Mach- ine & Equi- pment	Capi- tal out- lay	Grants in Aid	Loan & Adv- ance	Other Exp.	Total Rs.	Physical units
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1. Policy Formulation.

2. Procurement

3. Strange

4. Subsidiary
food scheme

5. Development of
food Industries.

6. Research &
Training

7. Preservation of
food stuff.

8. Assistance to
autonomous
corporation etc.

Total

There is no doubt that the application of performance budgeting gives rise to a number of difficulties and problems, specially in the field of measurement of performance, the matching the organisational structure and accounting classification with the budget structure, determining unit-cost, and integration of financial and performance reporting. But Indian civil servants are capable of solving all these teething troubles of this new technique, provided they have determination and direction to do the job. In the last analysis, it can be said that the advantages which can be drawn from the technique of performance budgeting later are worthy of taking the trouble of overcoming the initial difficulties, if we want to make our public financial management system efficient and economical. Economy does not mean saving or less expenditure but in making right choices of expenditure, and to this end performance budgeting can be of great help. Performance budgeting is a vehicle for optimising output for given resources in the governmental operations, provided it is given its four wheels, forceful engine and trained, clear-visioned and purposeful driver. Otherwise it would be

a lead piece of metal leave you where you were. The introduction of performance budgeting requires dedicated and sustained efforts on the part of the governmental machinery, otherwise Gresham's law will become operative, 'bad budgeting driving good budgeting system out.'

PERFORMANCE BUDGETING IN INDIA

by

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The Oxford English Dictionary has defined Budget as "a statement of probable revenue and expenditure for the ensuing year with financial proposals founded thereon annually submitted by the Exchequer for the approval of the House of Commons Hence, any analogous statement, estimate or proposals". According to Willoughby, Budget comprises 3 documents:

(a) a statement of the sums required for the due conduct of public affairs during the period to which such estimate relates;

(b) an estimate of the probable income from revenue and loans on the basis of existing provisions of law regarding public dues and credit operations;

(c) a statement showing conditions of treasury in terms of the assets and liabilities.

These statements are then integrated in the form of a simple document showing clearly the relationships between the actual, current as well as the receipts and disbursements. Budgeting, therefore, involves preparation of the estimates; collection and custody of funds; disbursement and control of expenditure and recording of all the transactions whose legality and regularity are duly verified by an independent audit. The delineation of these features are based on Willoughby's observations of the British financial system as it obtained on the eve of the First World War. The British System is the product of centuries of institutional changes. Some prominent features

of the British constitutional development such as the evolution of constitutional monarchy accompanied by the growth of the Cabinet System of Government have left their imprint on the British financial system. Hence, the predominance of the Treasury over the entire administrative machinery, a feature which remains substantially unchanged despite the creation of a number of legislative committees designed to make the executive accountable to the legislature. Highly centralised versions of the British system with their strings of control located in the Whitehall were extended to the governments in other parts of the British Empire. The extreme centralisation which characterised the Indian financial system until recently could be traced to its colonial past.

The process of evolution has been the other way round in the United States of America where no central budget agency emerged out of the disorderly Congressional system until the passage of the Budget and Accounting Act in 1921 which led to the establishment of the Bureau of the Budget as part of the Presidential staff within the Treasury Department and the General Accounting Office under the independent jurisdiction of the Comptroller General of the U.S.A. Most of the Latin American Governments which have imitated the Presidential system of the United States of America have established bureaux of budget as part of the executive arm endowed with enormous powers. Phillippines has also adopted the American System.

Despite the differences in the relationship between legislature and the executive the accent of all the traditional systems of budgeting is on accountability based on suspicion on the part of the higher executive organs of the government about their subordinate agencies and the legislature about the executive. Such an accountability was sought to be established in terms of a detailed scrutiny of the objects such as material, supplies and equipment to be purchased and officers and establishment to be employed. Of course, the government, and, more often, the various Commissions that reviewed the financial systems, from time to time, were very much concerned with the promotion of efficiency and economy. But, such a concern was demonstrated almost entirely through a rationalisation of the traditional framework of financial control which was based on itemised scrutiny rather than on work done in relation to the cost involved.

Such a system was devoid of a reliable yard-stick to measure efficiency or economy. This deficiency, however, was not a serious handicap so long as the state did not extend its activities very much beyond the police or security functions. The primary concern of the state, therefore, was law and order and protection of individual rights to property, contracts, etc. The colonial governments were also preoccupied with the maintenance of law and order, orderly assessments and collection of taxes, maintenance of land records, averting or dealing with

crises and calamities etc. Maintenance of the status quo was their immediate concern. There was no direction; no drive towards socio-economic change.

Nevertheless, socio-economic pressures which developed within the system compelled the state to embrace new functions of large magnitude in the course of the development of capitalism in the West and its extensions in the other parts of the world. The inhuman exploitation of the working population in the early decades and the undue market advantages extracted by the monopolistic combines at the adolescent stages of capitalism demanded the intervention of the state as a regulator of the system. Late-comers in industrial development looked towards the state as a protector as well as a provider and sometimes a pioneer. When it attained maturity, the course of capitalism was marked by periodic fluctuations which produced disastrous results. In this case, the state had to assume the role of a stabiliser through its counter-cyclical-cum-welfare programmes involving enormous public expenditure in the form of flexible programmes of public works and social welfare activities. The recent emphasis on steady rates of growth and near-full-employment that have characterised the mature economies of the Western hemisphere as well as the "gas and water socialism" to which some of them are wedded to call for an ever-expanding public sector which, in some countries in Western Europe, account for about 10-15 per cent of the total reproducible national assets.

In the underdeveloped economies of today, the state has become the pioneer, protector, activator and regulator besides being the creator of an institutional and social environment conducive to rapid economic and social change. In this context, the scope of public sector embraces social overhead capital as well as directly productive activities. The sole emphasis here is on directional change at a stable or accelerated rate. Sometimes, the rate and pattern of change is spelt out in detail. The detailed targets are 'ex-ante' quantified. The processes of achieving them are clearly delineated. Under this dispensation, the Government has become a change agent, a problem solver and an innovator. In this developmental context, administration needs a guiding philosophy having a mass appeal. Of course, there should ^{be} /an imaginative leadership which is action oriented; which creates the institutional and organisational framework conducive to development and which could shape the attitudinal and behavioural complexes of the masses of the people and involve them in the process of development. At the same time, it calls for planners, budgeteers, programmers, organisers, operators and administrators, who are firmly committed to change; who have penetrating understanding of the environment; who are familiar with the processes of change; who possesses the requisite knowledge of field work; who could adapt and innovate. Here administration should pinpoint areas of change, translate the programmatic values into operational terms, shape the behavioural patterns in line with the functions

contents of development, redraw the hierarchical arrangements, create and augment the requisite field operators and evolve suitable channels of communication and mechanism of control. Here the whole emphasis of administration shifts to commitment to programmatic values and management of programmes.

The functions of management are to concretise the societal values in terms of suitable policy vehicles, employ the most economical and efficient methods and techniques of administration, evaluate the performance of the programmes and activities in the light of their overall goals and to bring about suitable adjustments in the policies and programmes intended for the future. Budgeting is a management function. When planning, programming coordination, control, execution, evaluation, etc. are combined in a budgetary system, it becomes an effective tool of management. For an effective discharge of these functions, budgeting has to become the principal instrument of resources mobilisation, optimal allocation, economic utilisation, prompt and systematic communication, rigorous appraisal and so on. Accountability is not ignored. At the same time, the accent has shifted to management. Performance Budgeting^{*} is designed to carry out the managerial functions of the modern government most effectively.

* According to Jesse Burkhead programme relates to a higher level of organisation than performance units - i.e. a programme embraces a number of performance units (Projects or activities).

Performance Budgeting:

Performance Budgeting is essentially a process whereby the projects / activities of the performing units are converted into organisational, work and financial responsibilities. In the words of the Hoover Commission it is a reflection of what the government is doing, how much and at what cost. It focusses attention on the ends to be served by the government rather than on the amount of money to be spent. In the formulation of a Performance Budget the most important single task then, is the precise definition of the work to be done and a careful estimate of the volume of work as well as of what that work will cost. Further, the proposed work, its purpose and related costs are developed as part of the long-term goals and programmes such as those contained in the development plans.

The Performance Budget document is prepared on the basis of functions and objectives of the several agencies and departments of government rather than exclusively on the basis of objects of expenditure and organisational units. A function, for this purpose, has been defined as a major division of the total organised effort of government the purpose of which is to provide a distinct public service. A programme represents a segment of a function and an activity / project represents the division of a programme into homogeneous types of work. Functional classification can be illustrated as follows:

Function	Education
Programme	Primary Education
Project	Construction of a school building
Activity	Training of primary school teachers

The distinction between the object (or line item) and functional classification can be seen from the following presentation relating to the Central Mechanised Farm, Suratgarh.*

Current Classification (Revenue Demand No.43 - Agriculture) Major Head 31):-

Performance Budgeting

Experimental Farms:	I. Programme or activity classification
B-1 Central Mechanised Farm (Non-Plan)	1) Agricultural Operations
B-1-(1) Pay of Officers	2) Animal Husbandry
B-1-(2) Pay of Establishment	3) Horticultural Operations
B-1-(3) Allowances & Honoraria	4) General Administration
B-1-(4) Other Charges	II. Object-wise Classification
B-1-(5) Purchase of Machinery and Equipment.	1. Salary and Allowances
B-1-(6) Repairs to buildings and Roads.	2. Labour
Total Non-Plan	3. Manure
	4. Stores and Spare Parts
	5. Seeds
	6. Petrol, Oil & Lubricants
Plan - Suratgarh Farm:	7. Land Revenue and Irrigation arrangements.

* Source: Introduction of Performance Budgeting in Central Mechanised Farm, January 1966, Planning Commission.

B-1-(1) Pay of Officers	8) Machinery and Equipment
B-1-(2) Pay of Establishment	9) Repairs to Buildings
B-1-(3) Allowances, Honoraria etc.	10) Other charges
B-1-(4) Other Charges	Total
B-1-(5) Purchase of Machinery and Equipment.	III. Financing (Major Head 81)
Total	Plan.

The totals of I, II, and III would be same. Similar distinction can also be made between functional and organisational classifications.

Principal Components of Performance Budgeting:

Catheryn Seckler - Hudson has delineated several elements of Performance Budgeting. According to her, executive budget requires that individual agency programmes should be formulated and considered in terms of the government programme as a whole and should be in accordance with the policies established by the executive. A sound work programme for a specified time period should include, for each activity, a clear definition of objectives, the choice of basis methods for achieving the objectives, a forecasting of how much and what kind of work is to be done, when and at what cost. Consequently, the first step towards Performance Budgeting is the establishment, improvement and extension of activity schedules stating the major purposes to be served, the identification of programmes geared towards these ends, indication of projects and activities under each programme.

and the measurement of the volume of work with data on past, current and anticipated workload such as the number of children to be educated, number of hospital beds to be provided for, number of trees to be planted, number of square kilo-meter of area to be swept etc. These measures should be countable, clear, reflective of the important resources used and should be set forth in functional terms. If the organisational structure corresponds to the functional framework of an agency or department, it will facilitate decentralisation of responsibility for programming, budgeting and implementation at every level within the organisation.

The second step towards Performance Budgeting is the installation of work measurement and the application of performance standards without which Performance Budgeting could be defeated within the administrative agency. It is, however, recognised that there is no single yardstick for measuring activity or for determining performance standards. Some agencies can use standard costing and extrapolated unit cost data; others can use less sophisticated workload data; still others can use only explanatory or descriptive material. Agencies at different stages of development should be encouraged to devise and use the most suitable methods for a given programme and move progressively towards higher levels of perfection. Determination of suitable standards should be based on a complete understanding of the nature of the work and tentative allowing for deviations within tolerable limits. After having allowed for such deviations,

the variances between actual and standard performance would suggest some corrective action thereby enhancing the value of budgetary control.

The third important step along the road of Performance Budgeting is the establishment of record keeping along functional lines so as to enable the preparation and submission of timely performance reports to suitable levels of responsibility. Such reports would indicate the variance between budgeted and actual costs thereby enabling management to check on the work accomplished. Obviously, behind every such variation there must be reasons in operating conditions. Some of these are remediable and others non-remediable; some controllable while others are not depending on the levels of management to which the report relates. Where the variation is due to remediable factors timely and suitable action could be taken to eliminate the gap. An ideal reporting system should cover the volume, quality, time expended and costs of each programme or activity. But even the weakest should contain at least the data regarding the volume of workload for each activity.

An efficient system of information and reporting presupposes an adequate and proper accounting support. Basically there must be an integration of budgeting and accounting classifications. Accrual accounting should be used wherever appropriate especially where large volume of materials and supplies are procured and kept for future use. But in

few of the difficulties involved in determining costs and expenses in relation to changes in assets and liabilities the switch over to accrual accounting should be properly phased over a fairly long period. Similarly trading services and enterprises should be equipped with business type accounts and costing systems wherever feasible. Increasingly standard costing is coming into practice especially where the commodities/output is standardised and the process more or less repetitive. Ideally, commercial accounting will be reliable and complete only when they are on a double entry basis and a balance-sheet prepared at the end of the year. Hence every step towards the adoption of double-entry system and accrual accounting may be regarded as a gain in precision and completeness. It should also be recognised that accounting as an aid to management should be sufficiently strengthened and decentralised within the agencies to the degree practicable in terms of delegated operating responsibilities and the desired degree of centralised control. With the advent of accounting machines EDP centralised accounts could sometimes be more advantageous. In short, Performance Budgeting calls for a vastly improved accounting system which will enable all responsible persons to appraise the value of programmed activities in the light of costs and accomplishments.

There must be an improved organisation and programme management to take full advantage of the data made available

through performance reporting. It should be the constant endeavour of the higher organs of the executive to evolve new methods, procedures, techniques of operation and systems of internal audit etc., so as to use the available data for meaningful review and analysis of the activities with a view to improve their effectiveness and economy in operation.

An important element in Performance Budgeting is that types of expenditures which are essentially different in character such as capital outlays and current operating costs should be presented, justified and authorised separately under each major programme in the budget. A capital cost is an expenditure for the acquisition, construction or improvement of property or equipment (fixed assets) such as land, buildings plant or machinery. An operating cost is an expenditure other than a capital cost incurred in carrying out a specific programme or activity. These two types of costs are different in character and should appear separately under each major activity. In the words of the Hoover Commission;

"While capital project may be carefully analysed for usefulness, timeliness and total probable costs at the time of original authorisation, the total remaining costs of all capital projects should be set forth in the budget each year, together with costs incurred to date. These costs should be revised in succeeding years to keep them current with later developments".

It is true, that 'above the line and 'below the line' distinction is made in the traditional accounting practices prevalent in several countries. But, this is done mainly with a view to distinguish between the revenue financed and loan financed segments of the expenditure rather than to rationalise the budget in terms of strictly economic categories.

In logical terms uniformity in classification at all stages of the budgetary process should be extended to the appropriation structure as well. The structure of appropriation which provides the life blood for those activities should be in accordance with the underlying purpose of long-range planning and programme control.

Ideally, in the establishment of a Performance Budgeting system all these elements of improvement should move forward simultaneously. This is especially desirable since all these elements stand together. In practice, however, no one aspect of Performance Budgeting should remain static merely because something else has not been perfected. For improvement in one area stimulates and encourages other improvements and the interaction of all will finally determine the level of accomplishment.

American Experience:

Historically, the movement towards Performance Budgeting was somewhat haphazard and did not develop all the elements

enunciated by Catharyn-Seckler-Hudson. But the essential aspects were understood by a few progressive cities in the United States, several years before the constitution of the Hoover Commission. Since departmentalisation at the city level is generally on a functional basis and appropriations are usually made for departments, the elementary aspects of Performance Budgeting have existed in city budgets for half a century or more. But the development of city budgets is mainly due to the outstanding efforts of professional organisations such as the Municipal Finance Officers' Association and the International City Managers' Association in the establishment of departmental work programme and in the preparation of helpful documents and manuals. Richmond and New York City deserve special mention as the pioneers in this direction. Later on several progressive local governments such as the city and county of Denver (Colorado), Oxford (California), Kissimmee (Florida) San Diego (California), Kansas City (Missourie), Detroit (Michigan), Rochester (New York), Los Angeles and Berkeley (California) Slater and Lebanon (Missourie), Wichita (Kansas), and Phoenix (Arizona) were also blazing their own trails. These city governments may be credited with the experimentation of several patterns of budgeting according to their particular circumstances.

Initially, their experiments in Performance Budgeting were largely confined to annual operating expenses. But the progressive municipalities began to realise the futility of their earlier practices to deal with the problems of orderly development

of capital facilities and urban renewals which have assumed enormous proportions on account of the rapid growth of suburbs. Consequently there is a growing realisation for the need for an organic integration of planning, programming and budgeting which would help an orderly implementation of programmes in terms of needs and financial potentialities; development of programme consciousness at all levels; introduction of objectivity in the ordering of projects; rationalisation of rates and tax structures as well as better phasing and scheduling of projects.

More complex in function than the city but less complex than the Federal Government is the state jurisdiction. Though the State Governments, in general, were lagging behind the cities in budget improvements, the progressive among them have tended towards Performance Budgeting. Oklahoma has done significant work in developing a functional budget. California is outstanding for the progress made in erecting an appropriation structure in terms of programmes; and, Maryland voted to adopt a performance Budget system even before the Federal Government adopted the Hoover recommendations. Other states are also converting theirs to programme budgeting to some extent. The New York State has adopted Performance programme type of budgets in selected departments since 1954.

As for the Federal Government, the Taft Commission in its Report of 1912 recommended the development of budgets in accordance with the subjects of work to be done. Many of the individual agencies and departments of the Federal Government have justified their activities before the Congressional Committee on a programme basis for years. For instance, the U.S. Department of Agriculture attempted 'Project Budgeting' since 1934. The Tennessee Valley Authority developed a programme budget in terms of the various programme categories representing the specified objectives or implications of the general responsibilities charged to TVA Act. During the Second World War, several Federal Agencies began to develop activity schedules within the framework of Programme Budgets. The Government Corporation Control Act of 1945 required that the public corporations should follow the pattern of budgetary exhibits established for business-type agencies. The U.S. Navy began to prepare its budgets both in object-wise and programme basis since 1946. With the passage of the National Security Act (Amendment) of 1949 the Congress of the United States made mandatory the presentations of Performance budgets by the Departments of Defence and the Military establishments (in the Department of the Army, the Department of the Navy and the Department of the Air Force). They have made rapid strides in recent years. The work of F.C. Mosher reveals the extensive and intensive use of Performance Budgeting in the most delicate areas of national security.

The Hoover Commission of 1949 was primarily concerned with the problem of efficient and economic execution of governmental programmes and activities. The task force headed by A.E. Buck prescribed Performance Budgeting as the key to the solution of these problems. The Budgeting and Accounting Procedures Act of 1950 which was meant to embody the main recommendations of the Hoover Commission did not even use the term 'Performance Budgeting'. Nevertheless, it provided that "Budget shall set forth in such form and detail as the President may determine - (a) functions, activities and projects of the Government; (b) any other desirable classifications of data; (c) a reconciliation of the summary of expenditures with proposed appropriations." These provisions are interpreted to have provided a basis for Performance Budgeting.

The implementation of this technique, however, ran into a few difficulties such as (1) the necessity of treatment of separate programmes even when there was no clear cut responsibility, and (2) the inadequacy of cost information on many programmes shown in the Budget and so on. The Second Hoover Commission Report of 1955 paid attention to these and related problems. After due deliberations the Commission recommended that efforts should be made to streamline the classification of programmes and activities. It also encouraged the development of cost based budgets. In pursuance of these recommendations, the Bureau of the Budget was reorganised to meet the new tasks and the coverage of the techniques was also widened to include almost all the activities of the Federal Government.

Today, about 95 per cent of the Federal Budget is based on functional classification at all the stages of the budgetary process. Almost the entire work of the Federal Government is expressed in terms of 12 basic functions which are further subdivided into a total of 60 sub-functions, 500 appropriations units and 5000 programmes. Each programme embraces a number of projects or activities. However, the same degree of success is not claimed either in designing suitable measures of work or in introducing accrual accounting. Hardly 50 per cent of the Federal sphere is credited with a reliable work-load data. Even accrual accounting is restricted to less than three fourth of the Federal activities. At the same time the former Budget Methods Division of the Bureau of the Budget has been making strenuous efforts to step up the spread of Performance Budgeting in the remaining areas.

Even before Performance Budgeting struck deeper roots, at the dawn of the 'Sixties, enormous emphasis was given to the need for a properly integrated Planning, Programming and Budgeting System (PPBS), thanks to the pioneering work of Hitch & McKean, David Novick, Fisher and other 'Whiz Kids' in the Rand Corporation. McNamara gave it a big boost by first introducing it in the Department of Defence. Johnson administration extended it to other areas in a phased programme beginning from 1965. At present an evaluation is being made to bring about suitable modifications in the system. In the meanwhile PPBS has travelled to some of the European countries assuming new names such as Output Budgeting in the U.K., and Rationalisation of Budgetary

ecisions in France. Sometimes the old Performance Programme budgeting is also confused with PPBS which is also sometimes called Programme Budgeting. But it should be remembered that while the accent of Performance Budgeting is on implementation of a work plan or cost based budget that of PPBS lies on Planning and its integration with Budgeting.

In the meanwhile, several developing countries of Asia, Africa and Latin America have begun to realise the adoption of Performance Budgeting as a necessary adjuvant of planned economic development. Phillippines, Taiwan, South Vietnam are some of the Asian countries which seem to have proficted by Performance Budgeting. Convinced of its utility as an efficient tool of implementing its long-term plans and programmes as well as their efficient management, the United Nations and their subordinate agencies have prepared some useful documents and manuals, on budgetary reforms, classifications of government accounts as well as on Performance Budgeting. The various workshops organised in Bangkok, Addis Ababa and Copenhagen have evolved some broad principles on the basis of which developing countries could reorganise their budgetary systems. The Thirteenth International Congress of Administrative Sciences held in Paris in July 1965 has also devoted considerable attention to New Techniques of Budget Preparations and Management. More recently, XVth Congress of the International Congress of Administrative Sciences held in Rome in September 1971 devoted a full session to an appraisal of the developments in PPBS in different countries. The 27th Congress of International Institute of Public

21.
Finances held in June 1971 in Nuremberg also devoted its entire proceedings to the sifting of international experiences in PPBS especially regarding problems of measurement and economic analysis.

The Case for Performance Budgeting in India:

India has had a long tradition of public investment. One of the outstanding characteristics of the traditional Indian Policy was the provision of public works such as roads and irrigation. In the early years of its rule, the East India Company made a drastic departure from this tradition. But soon the wiser amongst the British administrators in India realised the importance of a good network of transport and communication primarily to promote the commercial and political interests of England. Irrigation was also given special attention to insure agriculture against uncertain monsoon. As a result, gross public investment constituted nearly as much as five per cent of the national income during the first decade of the present Century. Wars and economic fluctuations of the subsequent decades arrested this trend so that on the eve of the First Five Year Plan the state owned no more than 3 per cent of the entire reproducible tangible wealth of the nation. Even this was confined mainly to economic overheads. Industry, agriculture and trade were most entirely private.

Planning involved substantial step-up of public investment. The rate of public investment quadrupled over the first decade of planning in India. By the end of the Second Plan period public

sector claimed nearly half of the total annual investment in the economy. Consequently, the share of the public sector in the reproducible tangible wealth of the nation had increased to about 25 per cent of the total by 1960-61. By projecting this trend the Perspective Planning Division of the Planning Commission hopes to raise this ratio to more than one half of the total by 1975-76. But though the volume of public investment has increased considerably over the period, infrastructure investment in railways, roads, irrigation etc., account for more than three-fourth of the entire investment.

Nevertheless, it should be noted that public sector has pioneered into the industrial sector in a big way in recent years. In 1951 investment in public enterprises was of the order of Rs.1200 crores and on the eve of the Fourth Plan it has exceeded Rs.5000 crores. The first decade of planning in India witnessed an outlay of about Rs.2100 crores of investment in the industrial field. Of this, nearly Rs.1200 crores was in the public sector. The Fourth Plan has envisaged an investment outlay of about Rs.5298 crores in the industrial sector. Nearly 62 per cent of this is expected to be in the public sector. The predominance of the public sector in industrial investment is likely to be maintained even under the subsequent Plans.

The bulk of public investment in industries was in the intermediate goods sector such as metal, fossil fuel, chemicals, machinery and equipment, power etc., which involve large volume of investment, highly specialised skills, long gestation period

and considerable risk and uncertainty. The planning, programming, construction and operation of these industries demanded the application of sophisticated methods and techniques of management involving new organisations, structures, relationships, processes and behavioural patterns which the traditional administrative system could not easily innovate. One could certainly find instances under colonial administration to establish that it was quite capable of handling new developments in industry, trade and commerce requiring some understanding of modern management. For instance, Indian Railways which has remained the largest public undertaking until recently was always run on commercial lines. Some major irrigation works such as the canal network in the Punjab, as well as the Irrigation schemes on the Cauvery and Krishna in the South were very well conceived, designed and executed. Even state trading and controlled distribution of essential supplies was handled efficiently in some of the leading states during the Second World War. But all these would pale into in-significance before the scale and range of operations of public undertakings established over the plan period. Hence the administration has been fumbling under the weight of unprecedented levels of developmental responsibilities. In particular the outmoded budgetary system and the rules and procedures governing financial administration became a major bottleneck to development administration.

Colonial administration was highly centralised having the Secretary of State as the fountain of authority. The Finance

Department was the chief custodian of Indian finances exercising strong centralised financial control to ensure accountability for appropriated funds. It is true that the process of spatial decentralisation initiated by Lord Mayo gradually gathered momentum culminating in the inauguration of Provincial Autonomy accompanied by some diminution of the powers of the Central Finance Department. Even in the Provinces the Finance Departments found it difficult to readjust their roles within the framework of popular governments. The Governor General-in Council had also to redelegate some of the powers conferred on him by the Secretary of the State. Nevertheless, the Finance Departments were the object of stringent criticism for their "wooden" attitudes and capacity for "straining at the gnat and swallowing the camel". In particular, Reports submitted by A.D. Gorwala and Dean Appleby emphasised the need for delegation of adequate financial powers to the administrative ministries. These recommendations have strengthened the process of conferring enhanced delegation of financial powers on the spending ministries. The delegation plans of August 1958, September 1961, June 1962 and 1966 are important milestones in the direction of more rational exercise of financial control. Increasing doses of autonomy has also been conferred on public enterprises. Recently, some experiments have been undertaken to introduce officer-oriented administration and a single life system in order to speed up decision-making process. Financial advisers are also attached to the administering ministries to improve budget formulation and to enable them to exercise the delegated financial powers thereby

avoiding the delay involved in frequent references to the Ministry of Finance.

The Ministry of Finance has also been keen in infusing a spirit of economy and efficiency in the Government and has been looking for possibilities of management improvement in the administrative ministries. The Department of Expenditure could undertake work studies and management analysis in identified problem areas through special units such as the former Special Reorganisation Unit and the present Staff Inspections Unit which have been designed for that purpose. The Department of Coordination is responsible for bringing together the capital budget of the Government of India. In addition, it provides liaison work with the Planning Commission, reviews capital budget proposals, administers research grants, coordinates assistance to States on Plan projects and examines the progress of such projects in various economic spheres.

New items are required to be supported by detailed justifications. In recent years, advance programming of operations on a long-term basis with annual breakdown has also been taken up. Apart from laying out the operational tasks such as the targets and other aspects, detailed schematic budgets are also being drawn up in respect of important schemes. After intensive review in the Department of Expenditure and in other Central review organisations the capital budget items (except civil works) are formulated for review by the Planning Commission. After consultations between these organisations and the Cabinet,

decisions on the allocation of available resources are communicated to the ministries concerned which supply revised new item statement to the Planning Commission and the Department of Expenditure. Similarly, civil works estimates are processed through the Department of Expenditure of the Ministry of Finance and the Ministry of Works, Housing and Urban Development. After the Planning Commission indicates the amounts available for civil works, a Works Priority Board in the Ministry of Works, Housing and Urban Development in consultation with the administrative ministries concerned determines the order of priorities among the proposed civil works projects and distributes the available amounts accordingly. Finally, the Ministry of Works, Housing and Urban Development prepares the civil works demands for processing through the Department of Expenditure and inclusion in the Budget. Appeals can be made by individual ministries to the Cabinet. When financial determinations are made, rough data on all requirements are brought together for assembly by the budget division of the Finance Ministry into the annual budget presentation. It should, however, be noted that such detailed estimates are not available in the case of several governmental operations. For instance, nearly half of the Rs.32.30 crores provided in the budget for 1964-65 for construction of National High Ways under Demand No.141, Major Head 103, was reserved for unforeseen works. Obviously, such lumpsum provisions in the budget help neither rational examination of the estimates nor effective fiscal management. Once the

estimates are subjected to the scrutiny of the Ministry of Finance the financial data are recast by the accountants general in the form of the Annual Financial Statement and the Demand for Grants.

Annual Financial Statement covers all financial transactions of the Centre. Basically, it is an accounting presentation that shows data by major and subsidiary account heads prescribed by the Comptroller and Auditor General under the fund structure established by the Constitution. According to Article 30 of the Account Code (Volume I), the classification of transactions shall have closer reference to the department in which the revenue or expenditure occurs, than to the object of the revenue or expenditure, or the grounds upon which it is sanctioned. Budget is composed of several Demands. Each Demand may embrace some major heads such as the following:-

- | | | |
|----|---|------------------------|
| 19 | - | General Administration |
| 27 | - | Scientific Department |
| 28 | - | Education |
| 29 | - | Medical |
| 30 | - | Public Health |
| 31 | - | Agriculture |
| 33 | - | Animal Husbandry |
| 34 | - | Cooperation |
| 35 | - | Industries |

While the major heads are generally in conformity with the departmentwise classification of Demands in the Budget, they also embrace fields of activity, such as education, agriculture, public health etc., which are functional categories. The major

heads are sub-divided into minor and detailed heads. The minor heads too, are partly organisational and partly functional, for instance, under 31 - Agriculture, the following are some of the minor heads: Director, Superintendence, Agricultural Education, Agricultural Engineering, Grants-in-aid, Contributions, Works, other charges etc. Under the minor heads, the sub-heads or detailed heads, conform by and large, to what is commonly referred to as 'object-wise classification', some standard heads being, pay of officers, pay of establishment, allowances and honoraria, contingencies etc. The Governmental transactions are thus classified not in accordance with any one rigid principle of classification, but eclectically in accordance with a number of criteria which sometimes operate together and sometimes present alternatives. The picture is thus broadly one of departmental-cum-object-wise classification criss-crossed by numerous classifications on a functional basis.

These accounting classifications were adjusted in a major reform in 1961 to permit improved analysis of government expenditure. As a result, they now provide a few broad functional categories like Social and Developmental Services and Transportation and Communications while at the same time showing some across the broad groupings like administrative services, as well as contributions and miscellaneous adjustments (which includes a large item covering all grants-in-aid to the state governments). Thus, the functional categories are not mutually exclusive and the total expenditure in a given function is not found in any one

place. Until recently, the Indian Government has been presenting a separate statement on the functional classification of expenditure like the one prepared on an economic basis since 1957-58.

The provisions for Plan and Non-Plan expenditure under a demand are grouped in one supporting schedule and objects of expenditure are shown in another schedule. The data also are grouped to classify separately the revenue and capital expenditure and whether they are charged or voted items. This presentation is supported by a combination of narrative and statistical information in the back of the volume which presents notes on variations in the individual demands (in support of the estimates), broad aspects of Non-Plan expenditure and notes on important schemes.

The Annual Financial Statements and the Demands for Grants are supplemented by an Explanatory Memorandum which is a separate volume of narrative, financial and statistical data designed to clarify and support the budget. It provides an analysis of the overall budgetary position of the government and summaries of revenue and expenditures and capital budget transactions derived from the Annual Financial Statement. This presentation, therefore, is based on the official classification of financial accounts and shows net expenditures under the various heads of account. In addition, it furnishes a number of separate analyses of different aspects of the total budget covering such subjects as gross tax revenue and the costs of collection; resources transferred from the Centre to the States; expenditure on various

functional categories and a distribution of the Demands for grants, including reconciliation with the gross/of financial presentation in the Demands.

Other documents accompanying the annual budget include an Economic Survey which presents an analysis of production trends, prices, balance of payments, national income and related accounts, Annual Reports for each of the ministries and a consolidated report on all commercial and industrial undertakings which explain the structure and operations of the various organisations and include significant statistical and workload information and the Railway Budget, supported by a Review of the Performance of the Indian Railway. The Railway Budget follows the general form of the Budget for the Government of India, i.e. consisting of a financial statement, a Demand for Grants and an Explanatory Memorandum. The document on reviews of railway performance is a comprehensive presentation that analyses the performance in traffic earnings against the background of general economic conditions. It also reviews the performance and expenditure in relation to plans and targets, but in general, the progress of financial performance and physical achievements are considered separately.

Thus, under the Indian system, presentations of the Five Year Plan are almost exclusively in terms of functional categories such as agriculture, animal husbandry, industry, transport and communication, social services etc. Even the budget documents such as the Annual Financial Statement and the Demand for

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ual Plan

Grants contain a fair sprinkling of functional categories. However, these functional categories are prescribed by different authorities and while they can be reconciled they are neither uniform nor mutually exclusive. It is difficult, therefore, to develop a functional schedule which groups all operations of the Indian Government that are directed towards the accomplishment of a specific service. Further more, the Indian Budget does not identify the programmes and activities or projects that contribute to each of the functions or services performed by government. Again, some classifications of this nature, appear in various parts of the budget but not presented uniformly or as part of an overall scheme.

The same difficulties are encountered in relating Plan schemes and the budget estimates of the State Governments. Attempts have been made to accommodate the expenditure incurred by various governmental agencies on the Plan schemes and programmes within the existing structure of classification. Firstly, the distinction between Plan and Non-Plan expenditure has been introduced in the classification of vouchers so that expenditure stands classified as Plan or Non-Plan. This distinction is reflected in the Finance Accounts of the State and Central Governments. These Finance Accounts are published separately from the Appropriation accounts, the latter being concerned mainly with showing expenditures against appropriations. The second way in which the structure of accounts accommodates Plan by the opening of detailed heads for recording expenditure on individual schemes or groups of small schemes. Along with the budget

estimates a separate book is published by each State Government giving the provisions made for Plan schemes under the various major heads in the year in question.

It might thus appear that an attempt is specifically made to relate the Plan and the Budget. The actual position is not a satisfactory one. In the first place, the Finance Accounts give minor-head-wise details so that the total Plan expenditure and Non-Plan expenditure under each major heads and minor heads are given. From these figures we can have an idea of the Plan expenditure of each Department broadly grouped under minor heads but not the expenditure on individual Plan schemes. Moreover, the groupings of schemes in the Plan do not coincide with the major and minor heads in the accounts and a number of schemes forming a related group are often executed by different departmental agencies. As revealed by a recent study on the problem of 'Linking of Heads of Department and Budget and Accounts Heads' made by the Management and Administration Division of the Planning Commission, the Head of the Development Agricultural production is scattered under 11 different major heads in Bihar and under 12 major heads in Kerala. Such examples could easily be multiplied. As a result, the total Plan expenditure booked under a major or minor head can scarcely be regarded as expenditure on individual or a group of Plan Schemes. Secondly, there is a surprising lack of uniformity in the manner in which information relating to the provisions for Plan schemes is presented by various State Governments. Some State Governments

(e.g. Orissa, Mysore and Andhra Pradesh) give the information in statements arranged on the basis of budget or account heads (as provisions for various schemes under one head of development or even for one scheme are often made under a number of budget heads, statement of Plan Provisions arranged in accordance with budget heads are not very helpful). A few State Governments (e.g. Madras and Jammu & Kashmir) arrange the figures entirely by heads of development and schemes, giving a reference by number to the various budget or account heads under which provisions stand recorded, without indicating the actual provisions under each head. Still other Governments (Kerala and Punjab) arrange the figure according to the heads of development and schemes and indicate against each/^{the}provisions made under each major head.

The Maharashtra Government gives the figures in accordance with Plan heads in the Abstract and in accordance with major heads in the detailed statements, so that the correlation of the Abstract and the detailed statement is not very easy. The Gujarat Government gives the information in accordance with budget heads, and adds a statement connecting the Plan schemes and the major heads of account. The West Bengal Government gives a good deal of information, but in such a large number of statements that the publication is not easy to consult. It would seem that the Planning Commission has not suggested to the State Governments the adoption of a common pattern for the presentation of information relating to Plan schemes as a supplement to their budget estimates. Such a lack of harmony in the presentation of information relating to Plan and budget categories renders it

difficult to get an integrated view of the plan and programmes on the one hand and the projects and activities envisaged in the budget on the other. Undoubtedly the present system of classification of expenditure looks like a labyrinth which is beyond the comprehension of average legislators or other members of the public who are mainly interested in knowing what the government is doing, how much, when and at what cost. They are least concerned about the accounting ingenuity manifest in the present system.

As an independent agency maintaining accounts and conducting financial audits for the Central and State Governments the Comptroller and Auditor General of India wields enormous influence in the financial management throughout India. It participates in the budget process and issues annual financial and audit reports. Reports on the Centre are transmitted to the President and through him to Parliament for follow up action. For the States, reports are routed through the Governors to the State Legislatures.

One of the anomalies of the present system is the combination of audit and accounts in the same heads. The question of separation has been under debate for some time. So far such a separation has also been effected in a few departments like railways and defence as well as in several of the public enterprises. But, the extension of the process of separation to the entire government is delayed on the ground of economy. As mentioned earlier there is a common classification for the budget

and the accounts with appropriate adjustments and subsidiary compilation to tie the accounting data with the appropriation structure, funds structure, as well as the plan categories. In addition, the administrative ministries maintain accounts on a cash basis in terms of the budget demands in an attempt to control the use of funds. It is true that periodic progress reports in terms of physical attainments are also introduced in some progressive departments. But in their preoccupation with the process of budget preparation and expenditure control the physical data thrown up to the higher echelons of management do not properly serve the purposes of decision-making, review and control. Budgeting would serve as an effective tool of management only when functional classification is introduced at all the stages of financial administration. It may also be worthwhile to introduce accrual accounting wherever necessary.

Movement for Performance Budgeting in India:

In India, the need for modernising the budgetary framework was keenly felt ever since we undertook planned economic development. However, the first demand for the introduction of performance budgeting was made in the Lok Sabha in 1954, during the course of a debate in the Finance Ministry's control over expenditure. This theme was taken up and was further strengthened by the Speaker of the Lok Sabha in the course of his address to the annual conferences of the presiding officers. It found further strength from the recommendations of the Estimates Committee. The Committee, in the 20th Report on 'Budgetary

Reform' (1958) suggested that:-

"Performance-cum-Programme System of Budgeting would be ideal for a proper appreciation of the schemes and outlays included in the Budget, especially in the case of large scale developmental activities. The Performance Budgeting should be the goal which should be reached gradually and by progressive stages without any serious budgeting dislocation. It is to be hoped that the experiment towards Performance Budgeting on a selective basis in order to supplement the traditional budget would be expedited and that the 1959-60 Budget contain concrete results of it at least in the case of selected ministries or projects."

While noting the suggestion of the Estimates Committee, the Government indicated that the possibility of its introduction was already under examination of the Finance Ministry and that the feasibility or otherwise of Performance Budgeting, even on a Limited scale, depends upon the outcome of this examination. They felt that if the findings of the study are favourable, it may be possible to make a beginning in the 1960-61 budget. In response to this reply the Estimates Committee in its 60th-61st Report (1959) urged that the matter be expedited so that the 1960-61 budget will be a Performance Budget partly if not wholly.

Further, in their 73rd Report (1960) the Estimates Committee reminded the Government of their earlier recommendations about the Performance-cum-Programme budgets besides the business-type budgets which the public enterprises may be encouraged to prepare

for the use of Parliament. As a result of such persistent demand from the Estimates Committee the Department of Economic Affairs in its Office Memorandum No. F-8(6)-B/60 dated June 12, 1961, addressed to all Ministries of the Government of India, drew their attention to the demand of the Estimates Committee requiring that the public undertakings should prepare Performance-cum-Programme statement besides business type budgets for submission to Parliament. For this purpose the Estimates Committee had encouraged the undertakings to adopt the proformas in use in the United States under the United States Corporation Control Act, 1945. Accordingly, the Ministry of Finance recommended that the departmentally run undertakings in India may very well emulate the example of the Indian Railway in preparing a review of their performance for periodic submission to Parliament. On the other hand the companies set up under the Indian Companies Act, 1966, and the Corporations set up under the various statutes have to follow the provisions applicable to them as laid down in their respective enactments. Where no such specific provision has been made in regard to these matters in the relevant Act, suitable instructions in this behalf were required to be given. The Memorandum, however, duly advised the various undertakings to adapt the specimen proformas suitably keeping in view the operational requirements of the various undertakings. It is true that, the leading enterprises in the public sector were quick in introducing business-type budgets which are invaluable aids to management. Expert investigation

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have also been made about the feasibility of commercial budgeting and steps that need be taken in this direction in some of the undertakings like Posts and Telegraphs where such accounting reforms have been introduced since then. But very little progress has been made in the development of performance-cum-Programme budgeting. The emergency that has prevailed since the last quarter of 1962, might have discouraged the Government from experimenting with new methods and techniques of financial management.

In the meanwhile the Ministry of Finance invited Frank W. Krause of the United States Bureau of the Budget to examine the question of Performance Budgeting in India. On the basis of a reconnaissance conducted by him in April 1964 he made a case study of 3 departments, namely, Central Board of Revenue, Central Public Works Department, and National Small Industries Corporation on the basis of which he recommended the adoption of a comprehensive and clearly phased plan of action to introduce Performance Budgeting in all central ministries and related enterprises. Such a long-range improvement programme requires a strong backing of the Cabinet and the Parliament. He has also emphasised the need for decentralised accounting and a single purpose functional classification at all levels of financial administration as the main lever of development administration.

The Institute of Public Administration and the Management and Administration Division of the Planning Commission have also

contributed a great deal in preparing the grounds for an early switch over to performance budgeting. With the assistance of the U.S.A.I.D., the Institute obtained the services of Carl W. Tiller, Chief of Budget Methods in the United States Bureau of the Budget for about six weeks in July - August 1964 and organised a series of lectures in which about 150 persons of financial and accounting background in the various departments of the Government and public undertakings participated.

The Management and Administration Division in the Planning Commission had made some pioneering efforts to convert the traditional budgets of some of the public undertakings on a performance basis. The following are the documents prepared by them:

- (a) Introduction of Performance Budgeting in Central Mechanised Farm (Suratgarh), January 1966, (Mineo).
- (b) Introduction of Performance Budgeting in National Highways, February 1966 (Mineo).
- (c) Introduction of Performance Budgeting in Telephones (Communications), February 1966, (Mineo).
- (d) Linking of Heads of Departments and Budget and Account Heads, November 1965, (Mineo).

The probing efforts of C.O.P.P. was followed by the studies of the Working Group on Performance Budgeting set up by the Study Team on Financial Administration of the Administrative Reforms Commission. Based on the Reports of its Working Group and the Study Team on Financial Administration, the Administrative Reforms Commission recommended the introduction of Performance Budgeting in India. The Administrative Reforms

Commission Report on Finance, Accounts and Audit containing this major recommendation may be regarded as an important milestone in the financial development in India.

In fact the Working Group had suggested the introduction of Performance Budgeting in two or three developmental departments, to start with, before its extension to other departments. The Study Team had also endorsed this policy of gradual change. But the A.R.C. recommended its adoption for all the developmental departments at the Centre and the States within 2 years beginning from 1969-70. The Government of India has decided against any rigid time schedule but agreed that Performance Budgets should be introduced in all developmental departments gradually.

The Government of India did not wait till the A.R.C. recommendations were formally accepted. Soon after the 1968-69 budget a document entitled "Performance Budgets of Selected Organisations 1968-69" prepared by the Ministry of Finance was laid before the Parliament. This document covered four Union Ministries / Departments (16 organisations & services in all). The scheme was extended to five more Ministries / Departments in 1969-70. Two more Ministries (seven organisations) were added in 1970-71. Since last year the task of preparing Performance Budgets are squarely placed in the hands of the respective departments. Some of them have set up Performance Budgeting Cells / Working Groups within their departments to prepare such

budgets under the guidance of the Ministry of Finance.

At the instance of the Central Ministry of Finance some of the State Governments like Tamil Nadu, Kerala, Mysore, Maharashtra, Punjab, Rajasthan, Nagaland, U.P., and Goa have also begun to prepare Performance Budgets of their own for selected departments. Central territories like the Andaman and Nicobar administration have also made some efforts towards Performance Budgeting.

The A.E.C. appreciated and emphasised the need for training which was earnestly taken up by the Financial Management Unit of the Indian Institute of Public Administration. Besides training some of the staff of sister institutions like the Secretariat Training School, New Delhi and H.C. Mathur State Institute of Public Administration, Jaipur, the I.I.P.A. has launched several training programmes to develop proper appreciation and working knowledge amongst the middle and higher level functionaries in the Government of India, State Governments as well as in the public undertakings. Five types of courses have, so far, been developed:

1. Eleven Courses on Performance Budgeting.
2. Five Courses on Budgeting and Financial Control.
3. Three Special Courses on Performance Budgeting for Public Undertakings.
4. One Course on Performance Audit.
5. Financial Management Courses in the I.I.P.A. and more than half a dozen State Capitals.

Performance Budgeting has been the main theme around which all these courses have been organised. Specialised courses on Performance Budgeting for capital projects are also designed. So far about 1000 middle level officers have undergone this training. Besides the Secretariat Training School (Institute for Secretariat Training and Management) and H.C. Mathur State Institute have together organised more than a dozen courses on Performance Budgeting, with the strong faculty support from the I.I.P.A. The Institute has also held special seminars on financial administration for University teachers/besides collaborating with Universities like Punjab and Osmania in organising special courses on Performance Budgeting for different levels of Government. The Centre for Municipal Administration, IIPA has also been enabled to organise a few courses in Municipal Budgeting focussed on Performance Budgeting.

Besides training, the Financial Management Unit of the I.I.P.A. has conducted a depth study on the applicability of Performance Budgeting to Capital Projects in Central Public Works Department. In addition, scores of workshop reports with varying degrees of excellence have been prepared both for operating and construction activities. The Financial Management Unit of the I.I.P.A. has also rendered some consultancy services to some of the States and public sector undertakings. Several publications are underway highlighting the feasibility of Performance Budgeting and related aspects of Financial Improvement.

Prospects

It is no longer necessary to emphasise the advantages that are likely to accrue from an organic integration of the processes of planning and budgeting when a single set of classification runs through all the stages of financial administration namely, preparation of the estimates, voting of demands, implementation, accounting review and audit. Such a system would improve legislative review by presenting a comprehensive picture of either the operation of government, the economics of the operation, the benefits that flow from such operations or the relationship between the resources and the operations.

If the budget is a political and policy document it should be made intelligible to the average citizen. Only when he could comprehend what the programmes of the Government are; what they would cost; who would pay for them; who would benefit by them and to what extent, he could be enabled to exercise his franchise in the most effective way. Given the requisite level of literacy, the welfare content of a progressive budget expressed on an activity basis would strengthen the democratic process and evoke meaningful participation of the citizens in the implementation of the tasks set out in the budget. In other words, performance classification helps to improve public relations by providing clearer information for a rational public appraisal of responsible Government.

If developmental effort is more than a grandiose paper plan, the various programmes contained therein should be more opera-

tional. Often its implementation is delayed and distorted partly by faulty phasing and scheduling and partly by apoplexy of administrative and financial powers in the higher echelons and anaemia in the grass roots of administration. Apart from top heavy administrative structures excessive criss-crossing or organisational and functional responsibilities seem to block a smooth process of a rational delegation of powers. It may not always be possible to bring about a perfect harmony between organisational and functional categories. But, when a great degree of synchronization between programme and organisational responsibilities could be achieved it would facilitate an effective system of decentralisation making on the spot administration and unit of command possible.

Decision-making at the different levels of the organisational hierarchy will have to be supported by an efficient system of information and communication. A rational review of the order of priorities, allocation of resources and the structure of responsibilities will be possible only when the requisite cost and work data are made available at appropriate levels of decision-making. Besides, managerial control based on the exception principle will not be effective without adequate cost information (based on unit costing and standard costing wherever feasible). Only performance classification of expenditure accompanied by internalised accounting and systematic reporting could provide such informational support. Such a transformation would also facilitate the introduction of cost audit as an

important ingredient promoting efficiency and economy in the operating agencies.

Some of the recommendations of the A.R.C. on accounting and connected matters that have a vital bearing on the success of Performance Budgeting have been referred to a Team of Officers. One of their important tasks is to streamline the accounting heads to suit the needs of Performance Classification. The first instalment of their report relates to the restructuring of some of the Demands for Grants and Major Heads of Accounts. The various sections in the budget are also reorganised. The realignment of minor heads of accounts and further simplification of accounting structure is under consideration. Provision was already there for efficiency-cum-performance audit though the spirit has been lacking. Now since April 1969 with the constitution of Audit Boards, an attempt is made to give the audit of public enterprises a performing orientation.

Organic integration of the processes of planning, programming and budgeting would be facilitated only when functional classification is applied at all the stages of financial administration. If annual budget is essentially an instalment of the long-term development plan relating to the public sector the traditional classification of the budget does not facilitate the inter-weaving of the physical and financial aspects at various operational levels. The advantage of Performance Budgeting in such a situation is that it brings the financial and physical aspects together right from the embryonic stage of

a proposal to the final emergence of it as a scheme. To sum up, Performance Budgeting helps to bring about an organic integration of planning, programming and budgeting; provides for more effective controls; sharpens decision-making at all the executive levels; makes legislative control more meaningful; helps to gear to process of decentralisation of authority in conformity with real responsibility and helps to improve public relations.

There are certainly a few pitfalls and problems which confront attempts to introduce performance budgeting. For instance, functional classification is regarded as the cap stone of Performance Budgeting. But the diverse world of reality does not always lend itself to neat and discrete categories most useful for classification purposes. Hence, the problem of identifying appropriate and adaptable functional categories. Even where identification is not so difficult the establishment of proper work units to measure such activities may be formidable especially in areas such as project design, surveys, research, foreign affairs, etc., which defy standardisation.

Further, performance budget aids but does not solve the greatest problem in budget decision-making, namely the comparative evaluation of projects, functions or activities unless it is supported by cost-benefit analysis which itself is far from perfect especially when the indirect and intangible costs and utilities are involved in a big way. Even when these ensure a great degree of reliability they help to measure quantity and not quality. Sometimes, information relating to quality may be

obtained out of some descriptive material obtained from operating agencies. But quality control will require more elaborate and rigorous engineering and statistical devices designed for that purpose.

Sometimes, the classification developed may be much too broad to reveal the significant programmes and activities of the agencies and to serve as a firm basis for budgetary decisions and management. Even when the classification is alright, sophisticated tools such as PERT and line of Balanced Technology or Critical Path etc., will have to be supplemented to costing and other aids provided by the Performance System in order to manage the construction of new projects especially when there is very little cost precedence. Some of the studies and workshop reports developed by the Financial Management Unit of the I.I.P.A. have helped to explore and improve the available tools in this area. Besides, Performance Budgeting may tend to encourage over-decentralisation and over-simplification of the appropriation structure and consolidation of functional categories for purely budgetary purposes thereby relegating the important programme and management considerations to the background. It might also tend to proliferate the proforma as involving enormous burdens on the accounting facilities within the agencies.

Despite these pitfalls and formidable problem of work measurement and costing, Performance Budgeting is bound to serve a very useful purpose in the context of planned economic development in a country like India. This explains the enormous

concern displayed by the Parliamentary Committees and A.B.C. for budgetary reforms. Though a simultaneous movement embracing all the elements of Performance Budgeting applicable to the Central, State and Local Governments is desirable, initial emphasis may be placed on the problem of identification of programmes and evolution of suitable measure of work and costs in the Central Government. This should be a part of conversion plan with appropriate phasing over time backed by strong legislative and executive support. All the departments and agencies should be actively associated with the conversion process. It should be realised that what is now being called a Performance Budget is nothing but a document refashioned out of the available data from the Demands for Grants, Annual Plan, Annual Report and so on. If Performance Budget is to be of operational significance it ought to be built from operating levels of responsibility and summarised suitably for higher levels of management. Moreover, the absence of proper measures of workload is the Achilles heel of Performance Budgeting. Unless suitable norms and yardsticks are developed Performance Budget will be like a castle built on quick sand. The leadership which ought to spearhead the change in each Ministry ought to be clearly identified. The Ministry of Finance should encourage the requisite staff orientation and training. The conversion plan should also be made available to the State Governments and the leading municipalities as part of an endeavour to induce them, to adopt progressively the functional classification. Hardly a few public enterprises could

claim to have installed Performance Budgeting. Their efforts in this direction would, therefore, be immensely rewarding.

Accounts should be separated from audit. It should properly be made part and parcel of the management function with appropriate efforts to decentralise its location. Accrual accounting may also be introduced wherever feasible. Finance Ministry may be made responsible for the collation of accounts for the entire government. Even if this process of conversion would involve a little more cost by way of strengthening the accounting and financial facilities in the operating departments it is likely to be more than compensated by improved operative efficiency arising from the data made available through the single purpose classification and information system.

It should, however, be remembered that Performance Budgeting is a tool and not a panacea. Whether it is manageable or unwieldy depends largely on the skill of the tool maker. How effectively it is applied depends on the skill, imagination, energy and strength of purpose of the user. All it can provide is a meaningful basis for administrative planning, executive coordination, legislative decisions and administrative accountability at all levels of government. It is by no means a substitute for responsible public administration.

"DELEGATION OF FINANCIAL POWERS AND ROLE OF
THE FINANCIAL ADVISER"

By:

Shri K.P. Mathrani

I am grateful to the Indian Institute of Public Administration for inviting me to lead the discussion today on Delegation of Financial Powers and Role of the Financial Adviser. As the course is intended for senior officers of the level of Deputy Secretary to the Government of India and officers of equivalent rank and comparable experience and responsibility in the State Governments, most of you must be having intimate personal knowledge and experience in respect of the question of delegation of financial powers and also possibly the associated question of the role of the Financial Adviser. This makes my task much easier. You have no doubt also had the benefit of going through some of the excellent papers prepared on the subject by Dr. Thavaraj and Shri Handa. From the imposing list of books and literature included in the Bibliography circulated to you. I may take it that you are already very much steeped in the subject of discussion today. In view of this, I do not propose to go in great detail into the history of the evolution of the present Indian financial system, the contents of the reports of several Committees and individuals suggesting measures for improvement in the system and the series of steps that have been taken by the Government

of India in this regard ever since Independence. However, I shall touch upon these in a very brief way just for the sake of providing the necessary background to the discussions to follow.

2. The subject for today's discussion consists of two parts: Delegation of Financial Powers and the other the Role of the Financial Adviser. There is no doubt that the second part of the subject has an intimate relation to the first. In the first instance, I shall take up the first part of today's subject, that is, Delegation of Financial Powers.

The question of delegation of financial powers constitutes only one sector of the general question of delegations. General considerations underlying the principles of delegation have been very ably and lucidly dealt with in Chapter VII of the Report of the Study Team of the Administrative Reforms Commission on the "Machinery of the Government of India and its Procedures of Work", Part II, presided over by Shri C.D. Deshmukh. I presume most of you have already studied the relevant portions of the Report because it is a document which administrators should read. It is obvious that delegation of powers and functions is essential in any organisation and particularly so in Government where the activities are all-embracing, cover a vast area and comprehend many aspects of life. Because of this, Governmental machinery is prodigious in size and far spread. With the expansion of developmental activities, particularly after Independence and in the context of the goal of socialistic pattern of society that we have set ourselves in the present democratic set up, the scope of these activities is becoming more comprehensive. This has resulted in immense expansion of Governmental machinery both in the number of personnel employed and

in the spread of their locations. The problem of delegation has, therefore, become increasingly important and pressing and has been engaging the attention of Government and public agencies, particularly during the last twenty years.

3. Though it is obvious, it has to be remembered that delegation of functions and powers is necessary for more than one reason. In the first place, it is patently not possible to concentrate all powers and functions of Government at headquarters when its writ has to be implemented by its officials at different levels in different parts of the country. Secondly, the concentration of all powers of decision making at the headquarters of Government (whether the Centre or the States) would result in considerable delays and consequent discontent, which it is the object of responsive administration to avoid. Thirdly, concentration of powers will detract from the effectiveness of administration in the field and to that extent render the implementation of the developmental programmes difficult. Lastly, as has been stated by the Study Team of the Administrative Reforms Commission, responsibilities and powers must match together. Thus, if a functionary is given the responsibility of executing a particular job of work, he should also have the minimum powers to implement it effectively. This is particularly important for psychological point of view, because the functionary has then a feeling of participation in the administration of Government and does not consider himself merely a cog in the wheel, meant only to carry out orders and the dictates of some high official in a remote part of India. It is only under these circumstances that a person should give of his best for the effective discharge of his functions.

4. The need for delegation has all along been recognised and such delegation of powers was in fact effectively enforced before Independence. In the States, powers and duties of each functionary in the Revenue Department from Patwari up to the Commissioner or in the P.W.D. from Sub-Overseer up to the Chief Engineer were clearly laid down and the administration ran reasonably smoothly in the context of the limited functions and activities of Government. The problems of administration, however, have become more complicated and difficult, initially because of the system of controls and regulations established during the war, which entailed large expansion of administrative machinery, and thereafter, since Independence, because of the large developmental activities undertaking by Government. While the powers delegated have been enlarged during recent years, it is a moot point whether the delegations are commensurate with the enormous expansion in the scope and nature of the activities of the Government and the consequent proliferation of bureaucracy.

5. The extent and nature of delegations has to be reviewed from time to time in the context of increasing load of work and the changing functions and activities of administration. Therefore, as has been mentioned in the report of the Study Team of the Administrative Reforms Commission, the extent of delegations must be a function of the volume of work to be handled, and when the work load goes up substantially, there should be a corresponding significant stepping up of delegations. If this is not done, there will be, as in fact there is, avoidable proliferation of staff at the Centre with the consequent problems of administration, coordination and delays. Further, the delegations have to be tailored to the nature of the work handled by an organisation. Therefore, it may be desirable, as in fact it is the practice in many

cases, to delegate powers according to the type of work and programme to be implemented by the organisation, while maintaining certain basic uniformity in regard to common matters.

6. The delegation of financial powers, is, as I mentioned earlier, only one of the sectors of delegation. It is, however, a very important sector and the adequacy of the arrangements obtaining for this purpose, has, from time to time, been the subject of much criticism and examination. Further, the delegation of financial powers has added significance, as, under the statutory provisions under the Constitution, the Ministry of Finance at the Centre and the Finance Departments in the States have, understandingly, been given a special position in regard to the management of the financial affairs of Government. The existing rules of business provide that, subject to general or special orders made by the Ministry of Finance, no Department shall, without the previous concurrence of the Ministry of Finance, issue any orders which may:

- (a) involve any abandonment of revenue or involve any expenditure for which no provision has been made in Appropriation Act;
- (b) involve any grant of land or assignment of revenue or concession, grant lease or Licence of mineral or forests rights or a right to water, power or any easement or privilege in respect of such concession;
- (c) relate to the number of grades of posts or to the strength of a Service or to the pay or allowances of Government servants or to any other conditions of their service having financial implications, or
- (d) otherwise have a financial bearing whether involving expenditure or not.

There are identical provisions in the Rules of Business of the State Governments.

The above-mentioned provisions may appear to be unduly restrictive. It will, however, be noticed that the rule includes an important

proviso. The restriction is subject to general or special orders as may be issued by the Finance Ministry. The rules thus envisage not only financial control but also financial delegation, which is more important. All the delegations made in respect of financial matters flow from this proviso and the various rules such as 'Delegation of Financial Powers Rules' derive their authority therefrom. Considering the vastness of the administrative apparatus in India and the diverse problems handled by it, it is imperative that powers and responsibilities are decentralised to the maximum extent possible. The contents of the financial delegations have, therefore, been steadily increasing from time to time.

8. The control of the Finance Ministry over public expenditure is exercised in three stages; (i) Approval of Programme or Policies in principle; (ii) Acceptance of provision in the Budget Estimates; and (iii) prior sanction to incurring of expenditure subject to such powers as have been delegated to the Administrative Ministries. Until recently the Ministry of Finance was exercising rigid control at all the three stages. The control of the Finance Ministry on the third stage has been somewhat liberalised by delegation of the enhanced powers to the Administrative Ministries during the last decade. Now the Finance Ministry seeks to exercise its control mainly on stages (i) and (ii) that is, at the stage of approving a programme and subsequently at the stage of accepting the budget provision.

Since the Ministry of Finance has the ultimate responsibility of achieving a reasonably fair distribution of the total sum which the country can afford to devote to Government expenditure, between the different services for which the Government accepts responsibility,

the need for control or scrutiny at these two stages by the Finance Ministry is not denied. At the same time, it is to be ensured that the control at these stages is not too rigid or detailed, involving too much time and effort which may slow down the pace of work, and delay the implementation of projects, particularly developmental, commercial or industrial ones, thereby causing loss of national effort or income. It is also to be ensured that the scrutiny is constructive, purposeful, imaginative and not narrow in outlook or cramping in effect. Various attempts have been made to achieve these objectives but still one cannot be sure that the same have been realised in an adequate measure.

9. It is not necessary for me to recapitulate the various efforts made in the past to review the adequacy of the delegation of powers and to devise measures for improving the situation. Apart from the reports of Sir James Grigg and Sir Richard Tottenham prior to Independence, the recommendations of Shri Gopalaswamy Ayyangar, Shri A.D. Gorwala, Dr. Paul Appleby, Shri Deshrukh and Shri Ashok Chanda and the various reports of the Estimates Committee are no doubt familiar to you. However, the recommendations of Shri A.K. Chanda, former Comptroller & Auditor General, merit special mention. He felt that the existing system of financial control was wasteful because schemes were drawn up without sufficient technical and financial advice. He also felt that the external financial advisers were not sufficiently familiar with the problems and difficulties of the administrative Ministries. He strongly recommended adoption of the U.K. pattern under which the Secretary of the Administrative Ministry is the "Chief Accounting Officer" and is entrusted with full and clear responsibility for financial regularity and propriety. In the U.K.,

11. I have no doubt you are familiar with the contents of the October 1968 orders and it is not necessary for me to recapitulate them here. However, I shall refer to some of the principal features of these orders:

(i) The preparation of budget proposals in sufficient detail and their proper pre-budget scrutiny by the Finance Ministry is an essential feature of the scheme. Budget provision would normally be made on the basis of such scrutiny only.

(ii) In exceptional circumstances, lump provisions may be made in the budget for certain urgent schemes which may not be ready in sufficient detail at the pre-budget stage; such provisions should, however, be based on realistic assessment of the expenditure likely to be incurred during the year.

(iii) Where budget provision has been made after careful scrutiny of a scheme, the Ministry will be competent to issue expenditure sanctions in respect of the scheme and operate on the budget provision without any limit of amount. Further powers have been delegated to the Ministries to sanction excess of expenditure over the original estimate up to a limit of 10% or Rs one crore, whichever is less. But in cases where lump provisions have been made, amounts will not be available to the Ministries for issue of any sanctions until full details and justification for the scheme have been furnished to the Ministry and are accepted by that Ministry.

(iv) An important feature of the scheme is that competent financial advice should be available internally with the administrative Ministries. For this purpose, steps should be taken to organise

Finance, Budget and Accounts Cell with suitably trained staff in the administrative Ministries and to appoint Internal Financial Advisers of their own choice, who should be required, where necessary, to undergo a short course of training. The Internal Financial Adviser should be consulted in all cases before the exercise of the enhanced delegated powers. It is open to the administrative Secretary to overrule his advice by an order in writing.

(v) Certain enlarged powers for creation of posts, sanctioning contingent expenditure and grants and loans have been delegated under these orders. The powers for the creation of posts are, however, subject to the condition that, where there is no specific provision for that post in the approved budget, necessary savings should be located and specified before sanction is issued; further, for creation of posts which are intended to be continued on a long term or permanent basis, it has to be ensured that long term savings in the establishment budget are available for that purpose.

(vi) Full powers of reappropriation within a grant have been sanctioned provided there is no diversion of funds intended for plan schemes to non-plan activities and there is no augmentation of the total provision made for administration expenditure (i.e. pay, allowances and other charges).

(vii) In order to enable the Ministries to scrutinise proposals for creation of posts and to keep a watch on the administrative efficiency, it has been recommended that work study units should be set up in each Ministry, which will function directly under the Secretary. These units would study organisational structures, methods of work and procedure, the staffing of the establishment under the

Ministry and evolving of standards of performance and norms of work. The internal work-study units would be required to draw up cyclical programme to conduct studies, each cycle being completed in a period of about three years. Proposals for creation of posts should be scrutinised by these work-study units.

(viii) The administrative Ministries have been authorised and in fact encouraged to re-delegate some of their powers to the Attached and Subordinate offices under them.

(ix) A system of reporting and test checks, including submission of copies of the sanctions issued by the administrative Ministries in exercise of certain powers, has been prescribed under these orders to enable the Ministry of Finance to keep a watch on the operation of the system.

12. You will no doubt have already considered and discussed in this Course the merits of the scheme, its adequacy in the context of the large development programme on the one hand and the limitations of funds and trained manpower on the other and any snags or lacunae which may effect the implementation of the scheme. In this connection, the problems posed for discussion at the end of Dr. Thavaraj and Shri Handa's paper are relevant. In making this appraisal, you will, no doubt, have also taken into account your own personal experience in this behalf.

13. As you are probably aware, the scheme as obtaining till 1966 was reviewed by the Ministries in 1967 at the request of the Finance Secretary and the modified 1968 orders were issued in the light of the review. The main handicap in appraising the merits of the scheme is that we have limited experience as yet of its operation. The 1962 orders which formed the base of the scheme were unfortunately not

given full trial because of the limitations subsequently imposed thereon and the absence of suitable Internal Financial advice. Since the amplified scheme was introduced only about six months ago, it is too early to comment on its working. However, even the limited powers available between 1962 and 1966 were probably not given a full trial in most Ministries, partly because of disinclination or inertia on the part of administrative Ministries to exercise even the powers delegated to them and also possibly because of resistance of officers of the Ministry of Finance at times to the exercise of powers by the administrative Ministries. There are psychological questions to which I shall refer again later, but you will appreciate that no scheme, however, good on paper, will work unless there is a will on the part of the delegatee to exercise the powers and on the part of the delegator to permit the exercise of the powers in the spirit in which they are intended.

14. There is little doubt that during the last 20 years or so, increasing financial powers have been delegated to the administrative Ministries and the orders of 1962, 1966 and 1968 do give an indication of departure from the earlier over-centralised system of financial control. In many cases, the limits for the sanction of contingent and works expenditure have been substantially increased as compared to the earlier provisions, but having regard to the large increase in costs over this period, the benefit of these increases in the matter of liberalisation may not be so substantial. Therefore, some of these delegations may need a further review, particularly in regard to the ceilings for sanction of tenders, direct purchases and expenditure on new works.

15. The crucial provision of the scheme is that it is dependant on, I quote "the preparation of budget proposals in sufficient detail and their proper pre-budget scrutiny by the Finance Ministry." The question arises as to what is meant by "sufficient detail" and "proper scrutiny"? Having regard to the spirit of the delegation of powers, the induction of internal Financial Advisers and the devolution of authority to sanction schemes, it should normally be assumed that only the essential details of a scheme or a proposal, with a view to determining its feasibility and its suitability for sanction, with reasonably approximate estimates of cost under appropriate categories or heads, should be adequate for the purpose of inclusion of the provision in the budget. In this connection, it has to be borne in mind that most of the schemes in question would be plan schemes which have already been included by the Planning Commission in the Five Year Plan and in many cases even in the Annual Plan after due discussions, with which Ministry of Finance is also associated. Therefore, their need for acceptability are not in question. What is necessary in order to warrant the inclusion of the provision in the budget is to ensure that the estimates are reasonably accurate and have been prepared by the administrative Ministries after careful scrutiny and that the estimates of expenditure under the various heads of categories, including establishment, with a broad indication of the various categories of posts required are reasonable. There is, however, a tendency at the time of the scrutiny of the schemes for the purpose of their inclusion in the budget, for the Finance Ministry to require information about inessential details which tends to delay the "proper budget scrutiny" by the Finance Ministry, and, therefore, a

sump sum provision becomes inevitable. The result is that the draft EFC Memos go shuttling back and forth from the administrative Ministry to the Finance Ministry for quite some time. It is, therefore, necessary to lay down some broad guidelines of what is intended by "sufficient detail" and to ensure that the details required are in consonance with the spirit of the delegation of powers and with due regard to the mechanism of internal finance which has now been set up. A suggestion has been made by the Team on Financial Administration of the Administrative Reforms Commission that in the event of delays in the proper scrutiny of the scheme, expenditure on essential preliminary items upto a certain limit of the estimated cost, should be permitted, once the preliminary feasibility report is accepted. While this suggestion would be satisfactory so far as it goes, as I have stated earlier, I would be inclined to go somewhat further and would suggest that the nature of details required for pre-budget scrutiny should be confined to the essential features of the scheme, the other details being left to be determined in consultation with the internal finance from time to time. If this is not done, the powers assigned to administrative Ministries to issue expenditure sanctions in respect of the schemes included in the budget would have little significance.

16. The powers delegated for the creation of posts may also turn out to be somewhat illusory as it has been stipulated that where no specific provision has been made in the budget, necessary savings have to be located and specified before sanction can be issued under the delegated powers. It has also been stipulated that it will be irregular to create posts in the expectation that savings under the appropriate head are likely to be available. Further, in the case

of posts required on permanent or long-term basis, it has to be ensured that long term savings in the establishment budget are available for that purpose. These conditions are rather restrictive and may tend to nullify the benefit of the delegation purported to be made. In this connection, it has been the experiences of Ministries that the pre-budget scrutiny of the Finance Ministry was so stringent that no cushion whatsoever is allowed for any unforeseen items. The location of long term savings may be even more difficult and therefore the power to create posts on long term or permanent basis may be more or less infructuous. This position needs to be reviewed. It may be desirable that some cushion is permitted in the budget estimates to allow for small and unforeseen items, particularly temporary posts, being sanctioned under the delegated powers. Similarly, the delegation of more specific powers for sanctioning posts on a long term basis within some restricted ceilings and subject to suitable conditions, may also be considered.

17. While the powers of reappropriation now delegated are fairly large, the restriction regarding reappropriation of funds involving augmentation of the ~~et~~ total provision of a grant for administrative costs, needs further consideration. The desirability of restricting the administrative cost to the minimum necessary to achieve the objective is unquestionable. However, with the induction of internal finance, the need for reference of such cases of reappropriation to the Ministry of Finance is not obvious, as the Ministry of Finance would have little to contribute to the examination of such cases.

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18. While recognising the improvement in the delegation of financial powers over the position obtaining before Independence, one has to look ahead in a bigger way, particularly in the context of the increasing development programmes, the large budgets operated upon by the individual Ministries and the administrative and financial expertise that is being developed in the administrative Ministries. It is, therefore necessary to consider seriously the suggestions in para 7.14 of the Report of the Study Team on the Machinery of the Government of India etc. These suggestions include the delegation of selected responsibilities in regard to the scrutiny and admission of budget proposals of the administrative Ministries and the preparation and approval of the budget estimates by them. In this connection, it has to be borne in mind that, as has been pointed out in para 7.11 of the Report, the bulk of the estimates even for the new schemes are for small amounts. It is obvious that for implementing the suggestions, the structure and staffing of the internal finance would have to be strengthened and the status of the adviser raised, with correspondings thinning of the "Associated Finance".

19. This brings me to the second part of this talk, namely the role of the Financial Adviser. As you are aware, until 1955, all the financial sanctions, other than these relating to purely routine matters under the delegation of financial powers, were issued by the Ministries with the concurrence of the Ministry of Finance. However, from that year, it was decided, in pursuance of Shri Chanda's recommendation, to induct Internal Financial Advisers to assist the Ministries. This was done on a limited scale and in the beginning, I believe, it was

restricted to the Ministries of Irrigation & Power and Communications. With the passing of the 1962 orders, extension of this system to other Ministries became necessary but it was not apparently fully implemented. However, as I have mentioned earlier, an essential feature of the October 1968 orders is that competent internal financial advice should be available within the administrative Ministries. The functions of the internal Financial Adviser have also been outlined in detail in Appendix I of these orders. The principal duties are:-

- (i) Watch over the budget procedures and the scrutiny of budget proposals and proposals for supplementary demands for grants before they are sent to the Ministry of Finance.
- (ii) Proper maintenance of Departmental accounts and watch over the progress of expenditure against sanctioned grants.
- (iii) Advice to the administrative Ministries on all matters falling within the field of delegated powers.
- (iv) Assistance in the matter of Appropriation Accounts, Audit Reports, Estimates Committee Reports, etc.
- (v) Scrutiny of proposals before they are referred to the Finance Ministry for concurrence or comments and watch over regular and timely submission to the Finance Ministry of the various reports and returns required under 1968 orders.

20. While the Internal Financial Adviser is responsible to the administrative Ministry and can be over ruled by the Secretary of the Ministry, there is also an external Financial Adviser or Associated Financial Adviser, by whatever name he may be called, who exercises some of the powers of the Finance Ministry and advises on its behalf. In this capacity, he is obviously responsible to the Finance Ministry.

21. Since the system of Internal Financial Advisers has only been introduced recently in most Ministries, it would be somewhat premature to appraise the efficiency of their role at this stage. A point has been raised from time to time whether an officer who is subordinate to the Secretary of the Ministry can tender independent and objective advice. This point, however, loses sight of an essential feature of our administration, particularly in the Secretariat, viz that every officer is required to consider matters in a purely objective and unbiassed manner with due regard to the policies and interests of the Government and the country and to give honest and impartial advice and assistance to his superiors and to Government. Therefore, it is not only Internal Financial Adviser but also all the other Secretariat officers such as Under Secretaries, Deputy Secretaries and Joint Secretaries, functioning under the Secretary, as also the Secretary himself, are expected to function independently and honestly, with due regard, of course, to the practical needs of the situation.

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Therefore, there should be no difficulty in the Internal Financial Adviser tendering honest and independent advice and the doubt raised appears to me to be pointless. The Secretary retains the right of overruling the Internal Financial Adviser as he would overrule any other officer subordinate to him. This power and authority will, no doubt, be exercised by him with due consideration and after giving full weight to the advice of the Internal Financial Adviser.

22. However, for the system to be useful and effective, it is necessary to exercise care and discrimination in the selection of Internal Financial Advisers. It is imperative that the Internal Financial Advisers are drawn up from amongst senior officers with adequate background and training. Like his counterpart in the U.K., he would be or should be amongst the important officers of the Ministry and his importance would increase if the suggestions of the study team of the Administrative Reforms Commission are accepted. It is essential that he should have a good background of administrative experience. It is also desirable that he should have some financial background and experience of financial matters. Where the officer does not have the requisite experience, he should be given training in a course like the one you are undergoing at present at the earliest possible time. It would also be useful if there is periodical change of officers between the financial wing and the other branches of administration, as this would enrich their experience and make them more useful to Government. In this connection, it must be borne.

in mind that while there is no doubt that a certain degree of specialisation in finance is required, what is even more important is that the officer should have a good power of comprehension and a balanced judgment.

23. The question would naturally arise as to what should be the role of the External Financial Adviser after the system of Internal Financial Advisers is fully established. I think it is necessary to look at the question in an integrated and not a compartmentalised manner. The administration, the internal finance and the external finance are all limbs of the same Government machinery with a common object, viz. the implementation of the policies and decisions of Government in a business like and economical manner. In particular, the Internal Finance and External Finance should be complementary to each other and should, therefore, function in a coordinated manner. It is particularly desirable to avoid duplication of work in the examination of proposals, both in the interest of economy and efficiency. Normally, once the proposals and schemes have been thoroughly scrutinised by Internal Financial Adviser, there should be no need for further detailed scrutiny in the Ministry of Finance. It is, of course, always open to the Ministry of Finance to give its advice on broad questions of financial policy, but, apart from this, there should be no need for an initio examination of the entire matter once again in the Finance Ministry. If this pattern of work is not adopted and proper conventions developed, the posting of an Internal Financial Adviser may only mean the addition of a fifth

wheel to the coach. In this connection it is also relevant to mention that with the establishment of a sound system of internal finance, the proposals already vetted or scrutinised by the Internal Finance Committee, should receive attention at a sufficiently high level in the Finance Ministry and not turned down at lower levels. In fact, if the principle of delegation of financial powers is further extended as suggested by the Study Team of the Administrative Reforms Commission and proper conventions established, the distinction between internal and external finance may not be a real one the external finance confining itself to the budget provisions, matters of broad policy and establishment of guide-lines for scrutiny and sanctioning of proposals. It is hoped that with these conventions, the role of the Establishment Division of the Finance Ministry would be confined to more important matters and the question of minor relaxations could be handled by the Ministries themselves, in the context of the overall policy in this behalf.

24. Before concluding, I might refer to some other incidental matters relating to delegation of financial powers. As has been emphasised in the 1968 orders, the Ministries in turn are expected to delegate some of their financial powers to their attached and Subordinate offices. This is a very important aspect to which every Ministry should give its close attention. Such delegations are an integral part of the scheme and its purpose will be defeated if additional powers are retained by the

Ministries without a corresponding increase in the powers of the Attached and Subordinate offices. What is important in the ultimate analysis is that the man in the field should have sufficient discretion and authority to implement the programmes without frequent reference for guidance and orders to higher authorities and the headquarters.

25. For a proper exercise of the functions and powers at different levels of the hierarchy, it is essential that not only the Ministries and Departments but the Attached and Subordinate offices should have precise knowledge about the functions and powers of the officers at various levels. The rules and regulations are changing so fast that it is essential that every officer is supplied with an up-to-date manual of powers enjoyed by him, as well as by the officers both above and below him with whom he has to deal. This is an aspect of work, which, I must confess, is sadly neglected. Many of the codes and manuals will be found bulging with correction slips, which might again not be complete. It is, unfortunately, common experience that when the revision of a code or manual is completed and by the time it appears in print, the contents are already somewhat outdated. It is, therefore, desirable to devise a mechanism by which such changes, as are inevitable, are incorporated in the manuals and codes with the least possible delay. Further, it would be useful if each Ministry or Department brought out for the use of the offices under its control a readable brochure or pamphlet stating the powers

and functions, particularly financial powers, delegated to the officers at various levels.

26. Another handicap in the proper implementation of the scheme may be the lack of orientation and training of the officers. With the large scale recruitment to Government departments in the initial period of the era of planning and the general dilution of the standards all-round, the question of organising periodical in-service training to officers and personnel at all levels has become very important. This aspect has received considerable attention of Government in the past and courses like the one you are undergoing at present have been organised. However, other functional courses tailored to the requirements of the individual departments would be desirable to ensure that the officers of the concerned departments have an adequate knowledge of the rules and codes of the department to enable them to exercise their powers and discharge their duties in an efficient manner.

27. The delegation of powers, whether administrative or financial, is ultimately an act of faith. Therefore, the approach to this problem has to be one of constructiveness and imagination, with full knowledge of the pitfalls, but with conscious decision to take calculated risks. In financial matters, Government, in the past, has been somewhat chary of taking these risks as they may have large financial implications. But it has to be realised that the administration has grown to such prodigious dimensions

and the activities have become so far-reaching and complex that without proper delegation, the work of Government would be jammed and the intentions of achieving development of a fast pace would be frustrated. It is in this context that the question of larger delegations has been considered and 1968 orders issued. But it would be wrong to have a feeling that this is the end of delegations: in the changing society and economic conditions, administration cannot remain static. Apart from the extension of further delegations, what is important is to implement the existing delegations in the spirit in which they are intended and not to frustrate the object by the raising of petty and technical objections on the part of the delegator. At the same time, it is necessary for the delegatee to develop the will and ability to exercise those powers with due care and discrimination. Delegation of course implies the exercise of checks and supervision by the delegator but these should not be cramping in style as to thwart the very object for which the delegations are intended. There was an old quip about the British Treasury that it was like an inverted Micawber waiting for things to turn down. We in this country should resist this temptation to which it is so easy to fall a prey.

INAUGURAL SPEECH BY SHRI S.RANGANATHAN,
Comptroller & Auditor General of India
at the Indian Institute of Public
Administration on 1st March, 1972.

PERFORMANCE AUDIT

I am glad to be with you today in inaugurate this course on 'Performance Audit'. I have all along been an advocate of building up an effective system of internal audit to serve as an aid to management. It is, therefore, Particularly heartening to me that this Course is primarily intended for the officers of the Indian Defence Accounts Service who function as Internal Auditors of the Defence Department. The idea of my today's talk is not to tell you how to conduct performance audit. I shall concentrate more on general principles and concepts with special emphasis on performance audit in its application to State-owned production units - Government companies, corporations and departmental units - and the role of internal audit therein.

Performance Audit in broad terms means appraisal of performances of an enterprise. To ascertain how ell the job has been done by the enterprise, one has to know ~~what~~ should have been done or the objectives of the job. Objectives are needed in every area where activities are involved to achieve results. The objectives spell out what results the performances must aim at and what is needed to work effectively towards this aim. This implies decision-making. A decision is a course of action which is deliberately chosen for

achieving a desired result. Performance Audit is concerned with the entire gamut of this decision-making process. Appraisal of performances of an ordinary business enterprise is comparatively much less of a complicated problem compared with that of a State-owned enterprise for, in the case of any private Sector business firm the prime objective is profit. As Joel Dean observes :

"A business firm is an organisation designed to make profits and the profits are the primary measure of its success. Social criteria of business performance usually relate to quality of products, rate of progress and behaviour of prices. But these are tests of the desirability of the whole profit system. Within that system, profit are the acid test of the individual firm's performances".

When production is profit oriented, the relation between planned or realised profit and the capital input becomes the only criterion of investment effectiveness. This cannot however be the only criterion for judging the performances of a public sector undertaking, as the aim of nationalised production is not more profit maximisation, but maximisation of net welfare. Conceptually, the philosophy of net welfare cover objectives of wider import like :-

- (i) Creation of employment opportunities;
- (ii) removal of regional economic imbalances;
- (iii) import substitution and/or export promotion;
- (iv) provision of infra-structure and creation of a self-reliant and self-generating economy;
- (v) optimum utilisation of scarce national resources for production of goods and services most economically, consistent with the goal of certain socio-economic objectives laid down in the Directive Principles of State Policy.

Before developing these concepts further, let us track back a little to have a brief resume of the evolution of auditing practices in India, particularly in relation to public enterprises, making such audit more and more performance oriented. Auditing is commonly understood as scrutiny of transactions by an outside authority and reporting the results thereof to the owners of the undertaking. Auditing practices in India have not, as a rule, except in very rare instances, and until recently been known to cover anything beyond the regularity aspects of transaction. The traditional system of audit is designed to examine if the expenditure has been incurred with proper authority, if the revenues have been accounted for, if they have been properly classified and presented at periodical intervals according to the generally accepted norms of presentation and disclosure. In other words, such a system of audit ensures only the verification of accuracy of the recorded transactions and reporting

deviations through the system of reporting by exception. Present trends in evolution of auditing practices all over the world are admittedly in favour of an auditing system which is something more than mere regularity audit. It is being designed to safeguard not only the interest of owners, investors and creditors, but also of the employees and consumers. Introduction of cost audit in industry and setting up of the Bureau of Industrial Cost and Prices are pointers in this direction. The framers of the Constitution demonstrated remarkable foresight and were, in fact, the trend-setters of what is today known as performance audit. While moving an amendment for insertion of the words "any other authority" in Article 149 of the Constitution, Pandit Hriday Nath Kunzru said in the Constituent Assembly:-

"The State has invested or will invest crores and crores of Rupees in these Corporation. The power of the Auditor General should be capable of expansion, so that Parliament may have an independent authority at its disposal in order to satisfy itself of the soundness of the management of the authorities created by it."

Therefore, the need arose for a system of accountability of such undertakings, entirely different from what in practice prevails in non-Government organisation. A system of audit has to be evolved in such a manner as to report not only the true and fair view of the transactions

recorded, but also to assess the efficiency of operations, to spot wasteful operations and locate areas of weaknesses in control. Emphasis, therefore, shifted more and more to the scrutiny by the Comptroller & Auditor General of what is known as "Property audit". This system of audit was designed to find out if the expenditure has been incurred with wisdom, faithfulness and economy. As a further amplification, the concept of "propriety-cum-efficiency audit" was evolved. This system of audit was primarily directed towards ascertaining as to how well the affairs of an undertaking have been managed, if the expenditure has been incurred for the purpose for which it was meant and also if "value for money" has been obtained by the expenditure incurred. Such a comprehensive audit brought out various fields for improvement, as brought out in the various Audit Reports which were considered by the Public Accounts Committee and the Committee on Public Undertakings; the generality of the recommendations made by these Committees on the basis of the material contained in these Audit Reports will, I think, on objective consideration, confirm the usefulness of the system of audit of Public Sector Undertakings in India. This matter also came up for consideration by the Administrative Reforms Commission which recommended the setting up of Audit Boards for conducting an appraisal of performance of

undertakings every year by associating with officials of the Audit Department persons having technical knowledge and were familiar with the expertise in the administration/management of such or similar undertakings. Accordingly, the Audit Board pattern has come into vogue with effect from 1.4.1969. 18 Central Undertakings have already been reviewed by the Audit Boards and 13 more are under review.

With the introduction of the Audit Board pattern for appraisal of performance of the public sector undertakings, the techniques and approach of audit have undergone significant changes. The appraisal of performance is now primarily directed to ascertain how far the objectives of the undertaking have been attained. However, in the case of many of the undertakings, the objectives have not been spelt out clearly either at the time of setting up or subsequently. In cases where objectives are clearly laid down, it should be possible to direct audit scrutiny towards a meaningful appraisal in order to come to definite conclusions, as has been done in the case of National Building Construction Corporation Limited or the National Projects Construction Corporation Limited.

The objectives of public sector undertakings are often a combination of financial and non-financial factors.

Again, there are occasions when immediate financial objectives of an undertaking are found incompatible with the objectives of net welfare considered desirable from overall national strategy. The State Trading Corporation, for example have to come in a big way, even at the risk of loss, to provide price support to commercial crops like jute with the long range national necessity which could be secured only by assuring a reasonable price to growers, to avoid shifts in crop patterns that may create shortages in jute availability adversely affecting the earning of foreign exchange for the country, and providing employment to a much larger number of citizens. Or take the case of NEPA Mills, where for various reasons the Paper Plant in the Expansion Project came up earlier than the Matching Pulp Plant. This mill had to sell newsprint at a price lower than the price of the imported newsprint and was sustaining some loss on its production. In spite of the capacity created in the Paper Plant, there was no motivation for the undertaking taking up production of newsprint by improving ~~pulp~~ pulp till the Pulp Plant was ready, as it would only increase its loss. As a result, the country was losing substantial foreign exchange.

As a corporate strategy, it was perfectly logical and sound for the undertaking to keep the capacity idle to avoid its loss. However, considering the "opportunity cost" of saving foreign exchange and utilising capacity already created vis-a vis the loss at the level of the undertaking, Government are examining the need for utilisation of the capacity of the Paper Plant by using imported pulp to avenge substantial foreign exchange, keeping also in view the question of compensating the undertaking suitably for its loss. What I want to bring home is that in conducting effective performance audit, the objectives at the micro-level cannot be considered in isolation, ignoring the objectives at the macro-level altogether. This is an important and distinctive characteristic of Performance Audit of State enterprises.

Investment appraisal is one of the important areas in any system of performance audit. It is here that the concept of maximisation of net welfare plays its dominant role in deciding the choice of the area of investment. In its application in a public sector, the choice of areas of investment in most cases is decided centrally at the level of the Planning Commission and the executive Governments concerned, having regard to the overall national benefit, not necessarily using profit as the sole criterion for judging the investment effectiveness of individual public

sector undertakings.

Appraisal of performances of the public sector undertakings having net welfare as their aim, is not easy, as it is extremely difficult, may impossible to quantify some of the social and economic effects of nationalised production on the economy of a country as a whole; nor is there any uniformity in measuring such social cost-benefit in precise monetary terms. However, at the micro-level board indications of achievements in various directions can be attempted in an overall manner somewhat on the lines attempted in Part I of the Central Commercial Audit Report for the year 1969-70. The Bureau of Public Enterprises or the Finance Ministry in their economic review annually could well attempt such an analysis and bring out, if not comparatively, atleast in absolute terms the benefits that accrue from the public sector.

Inherent in the concept of growth is the need for recognition of creation of further wealth. The concept of net welfare thus does not treat the profit criterion as something ignoble. Having indicated all the factors inhibiting adoption of profit as the only criterion for performance analysis of State enterprises, one has to recognize that at the micro-level, profit is a very

important and material yardstick of appraisal. In spite of the differences between the private sector and public sector undertakings, they have a common motivation of reducing costs. This assumes particular significance in the case of public sector undertakings, many of which, for various reasons, enjoy a sheltered market. The emphasis in performance appraisal of public sector undertakings should, therefore, be on finding out if goods and services are produced at the most economic cost within the framework of the overall objectives of nationalised production. In other words, the central theme should be cost-analysis in all its ramifications. This presupposes existence of a suitable information system within each undertaking. A performance audit can be purposeful unless the management introduces an effective system of uninterrupted flow of information and appreciates the need for examination of costs critically at different stages. The Management must understand the relationship and interplay of the cost volume factor and the behaviour of cost in the economic environment of a particular undertaking. Though most of the public Sector undertakings have introduced cost accounting system in some form, application of modern techniques of planning and control, like standard costing,

budgetary control, management accounting, operational research, linear programming, etc. are yet to be effective and complete. As a result, the desired management information does not flow regularly and evenly, making the task of appraisal extremely difficult. It is here that the Internal Auditors can play an increasingly useful role by devising suitable management information system in consultation and collaboration with the Industrial Engineers, Planners and other technical people.

Having explained the constraints in the matter of performance analysis, the most important method of assessing efficiency of any manufacturing undertaking will be to measure its productivity or what is known in economic jargon as "contributed value". In manufacturing undertakings which are essentially service or strategic industries like defence, the extent of import substitution and technological improvement indicating broadly the self-reliance attained, and at what cost, will be the most objective tests of performance appraisal.

Constant vigil in the form of a continuous evaluation of the decision-making process and performances is the key note of success of any undertaking. I noticed with interest one recent analysis of Indian Foreign Trade (1949-1971) wherein the Contributor observed as follows:-

".....Our prices in a relative sense are generally too high
Far more intractable aspect of high prices of Indian products is linked with the low level of efficiency and cost-consciousness among those who run Indian industry.

To a considerable extent, this awful disregard for efficiency and cost is due to the fact that for the last 20 years or so, the entrepreneurs have been enjoying a completely sheltered market where practically anything could be sold at any price. Since the profits were earned so easily, few bothered about efficiency and cost".

In any system of performance audit, pricing policy should be subjected to a searching scrutiny, particularly to locate concealed low productivity and under-employment of employees. In a recent analysis of an undertaking where there was a wage-price-rise-race, the productivity was found to increase only by about 30% while wages registered an increase by about 78% over a period of six years. As further price increase was not possible, the undertaking has not only gone into red, but has been placed in a very unenviable position.

In this area, again, the Internal Auditors, by being constantly within the organisation, can, in collaboration with Commercial and Production Managers, make very useful contribution by critically analysing cost and tendering advice in formulation of a rational pricing policy for the success of the enterprise in the long run.

Although I have talked mostly in relation to producing units, the basic concepts of conducting performance audit in a trading or other service units would not be significantly different. The most important point to be borne in mind is that the methodology of performance audit cannot be a straight jacket and has to be adapted shifting the emphasis depending upon the enterprise to be subjected to such appraisal.

The distinction between Conventional audit and Performance audit is well known. It stems from the necessity of attaching less importance to individual irregularities committed in the day-to-day management than to the consideration of effects of managerial decisions on the performances and objectives of such undertakings. Detection and reporting of individual cases of loss, wastage, infructuous expenditure and irregularities are really only incidental to performance audit.

The history of evolution of performance audit in other abroad makes it abundantly clear that the initiative for devising such a system of appraisal came from the managements themselves. The motivation was to use it as a tool for aiding management in the decision-making process and formulating strategies. The essence of all management techniques is to work out and present data in time before they lose their value to management as aid to decision-making. Performance appraisal by external Auditors is no doubt necessary and desirable, but it can only be a periodical affair: it cannot take the place of a continuous evaluation by Internal Auditors of the efforts of the management so as to aid them in adjusting their policies and courses of action as warranted by the needs of both short-term and long-range planning. Any effective management should, therefore, develop an in-built system of conducting Performance Audit of its efforts. Internal Auditors being intimately conversant with the entire range of operations, can make worthwhile contributions in locating the gaps and weaknesses of both the decisions and the management information system, and suggest from time to time suitable modifications. The effectiveness of the system of Internal audit as a real aid to management should not only provide insulation from exposure to outside criticism by

taking corrective action in time, but is also likely to motivate the External Auditors to do an appraisal more of the effectiveness of the system in the main. This can necessary degree of independence and sense of security. After all, no system of control is better than self-control.

The concept of Performance Audit is comparatively of recent origin. Effective practical implementation of this concept can proceed and develop only with experience. A beginning has now been made in our country and I have no doubt that the undertakings will introduce it in an evergrowing measure in order to maximise efficiency in operation. I should say in conclusion, it is perhaps necessary to bear in mind that the techniques of performance audit are capable of being used more effectively and meaningfully in a producing or trading enterprise-whether a company or a departmental undertaking; effective performance audit of the aggregate of governmental activities as such has, however, its own limitations and constraints.

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